U.S. INTERESTS IN THE CAUCASUS REGION

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BEFORE THE

COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JULY 30, 1996

Printed for the use of the Committee on International Relations

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U.S. INTERESTS IN THE CAUCASUS REGION

TUESDAY, JULY 30, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC

The committee met, pursuant to call, at 11:30 a.m., in Room 2172, Rayburn House Office Building, the Honorable Benjamin A. Gilman, chairman of the committee, presiding.

Chairman GILMAN. The appointed time of 11:30 having arrived, because this committee always starts promptly, let me open the hearing this morning and welcome our guests and witnesses from the Administration.

We have Mr. John Herbst with us this morning, the Deputy Coordinator of the Office of Special Advisor to the Secretary for the New Independent States in the U.S. Department of State.

We have the Honorable Joseph Presel with us. He is the Coordinator for Regional Affairs and Special Negotiator for the Department.

We have Mr. Marshall Adair with us. He is Deputy Assistant Secretary of Bureau of European and Canadian Affairs, U.S. Department of State.

We are interested in the testimony this morning and getting your views on the United States and the kind of progress we are making in the Caucasus and maybe take a look at some of the issues that Congress should be sensitive to when we take a look at those areas.

I am glad that we have a chance to take the testimony of our witnesses, as it relates to this very important region.

We of course still have our troops in Bosnia and we hope that we can move along steadily there and make some good progress with other countries like the Ukraine and others within that general region.

It is important, I think, for us to have a good understanding of just what is going on in the Caucasus. So I would invite our witnesses to begin with their testimony.

Mr. Hamilton, do you have an opening statement?

With that, let me invite our witness, Mr. John Herbst, to begin with his testimony.

STATEMENT OF MR. JOHN HERBST, DEPUTY COORDINATOR, OFFICE OF THE SPECIAL ADVISOR TO THE SECRETARY FOR NEW INDEPENDENT STATES, U.S. DEPARTMENT OF STATE

Mr. HERBST. Thank you very much.

I would like to thank Chairman Gilman and the members of the committee for the opportunity to discuss with you our policy towards the Caucasus.

We value bipartisanship in developing and implementing our policy towards the Caucasus and the other New Independent States. I hope to enhance this today.

America was confronted with a major challenge and opportunity less than 5 years ago when the Soviet Union disintegrated into 12 New Independent States, the NIS.

How could we craft a policy which was both realistic, responsive to the needs of these states and yet firmly grounded in our national interests?

A number of clear priorities quickly emerged, not only for the Caucasus, but for all of the NIS. We wanted to support the independence, territorial integrity and sovereignty of the NIS.

With this in mind, we developed a number of policy principles. One, rigorous support for the efforts of the NIS to democratize and to develop vibrant market economies. Two, encouragement of their rapid integration into international political and economic institutions.

Three, promotion of stable, cooperative relations between the NIS, based upon established international norms and the early resolution of conflict situations. Four, advancement of American economic and business interests.

Pursuant to these principles we established diplomatic missions in Armenia, Azerbaijan and Georgia early in 1992. Our interaction with these states has been intensive and at high, indeed at the highest, levels.

President Clinton and Vice-President Gore have met multiple times with Presidents Aliyev and Shevardnadze and Ter-Petrossian.

Under Secretary of State, Lynn Davis, visited all three Caucasus' capitals two weeks ago to discuss cooperation in the security field and the Conventional Forces in Europe Treaty—CFE.

Perhaps the most fundamental task facing the Caucasus states, indeed all of the NIS, has been replacing the failed Soviet economic and political system.

The emergence of progressive democracies is the surest way to guarantee the independence of the region. Toward this end, the United States has lent moral and material support to the gigantic task of reform in the NIS.

Since 1992, we have contributed over $1.1 billion in humanitarian and developmental assistance to the countries of the Caucasus.

Overall, I think the region has made significant progress over the past 4½ years, but more remains to be done.

In Georgia, we have seen substantial movement forward, both on the economic and political side. Tbilisi has slashed inflation, introduced a new stable currency and passed legislation to push land and tax reform. Presidential and parliamentary elections last November were described by outside observers as free and fair.

The Armenian economy has made substantial progress in privatization and was among the first in the NIS to register positive

growth in 1994. While political reform has lagged behind, we have seem some welcome progress in recent months.

Azerbaijan has made dramatic progress over the past year on financial stabilization, but privatization and political reforms have not kept pace.

Unfortunately our ability to encourage Azerbaijan's democratic and economic development has been sharply restricted since 1992 by section 907 of the Freedom Support Act.

This legislation has limited our aid to Azerbaijan since independence to under $90,000,000, clearly hampering our ability to address the pressing humanitarian needs of its 780,000 refugees and internally displaced people.

Measures such as the Porter Amendment, though well intentioned, would actually complicate the problem by seeking to create artificial ratios for assistance to the Nagorno-Karabakh region of Azerbaijan and injecting political issues relating to the status of that region.

A key precondition for the prosperity and development of the Caucasus is the creation of a stable and secure environment in the region.

The United States has pursued a multi-layered approach to the problem of promoting security in the region. We have encouraged the gradual development of practical cooperation among Armenia, Azerbaijan and Georgia.

In time and particularly as regional conflicts are addressed, this can take on a more direct security component.

We have supported greater integration both within the Caucasus and with the outside world as an essential guarantee of the region's long-term stability and security.

Armenia, Azerbaijan and Georgia are already members of the United Nations, OSCE and NATO's Partnership for Peace. The Caucasus states also actively participate in economic institutions like the IMF and the World Bank.

The maintenance of the CFE treaty also make an important contribution to security and stability in the Caucasus.

Under the CFE flank deal provisionally agreed to in Vienna this spring by all 30 member states of the treaty including the three Caucasus states, Russia must reduce the overall amount of treaty limited equipment—tanks, artillery and armored combat vehicles—in the current flank zone by 800 pieces by May 31, 1999.

We have also encouraged Armenia, Azerbaijan and Georgia to pursue prudent strategies for cooperation with their immediate neighbors, though warning of the dangers of close ties with Iran, which continues to promote terrorism and flout other internationally recognized standards of behavior.

Relations between the three Caucasus states and their neighbors also touches upon the issue of the Commonwealth of Independent States, the CIS.

The U.S. position on efforts to deepen CIS integration has consistently been that this process should be voluntary, transparent and should not limit the ability of the individual NIS to broaden their interaction with the world community as a whole.

A key challenge to the establishment of a stable and secure Caucasus has been the persistence of tragic separatist conflicts in

South Ossetia, Abkhazia and the Nagorno-Karabakh. Ambassador Presel will deal with this in greater detail.

The vigorous promotion of U.S. business interest is a central tenet of our policy. Since 1992, two-way trade between the United States, Georgia, Armenia and Azerbaijan topped $600,000,000, but much more can be done.

The development and export of Caspian oil and gas products provides the single biggest avenue for cooperation. U.S. firms have already gotten involved in two offshore development projects in Azerbaijan.

Planning is underway to send the initial oil from the Caspian to both Russia and Georgia. We envision multiple pipeline routes, including a line through Turkey as necessary before the end of the decade to develop long-term Caspian oil.

As Caspian oil development quickens, it is essential that the littoral states work out their positions regarding the demarcation of the Caspian Sea.

In our view, economic development would be fostered by establishing clear ownership rights to division of the sea bed and rights to transfer oil and gas across and under the sea with proper environmental safeguards.

Our engagement in the Caucasus is robust and growing. It is an integral yet discrete part of our overall policy towards the NIS.

Integral because there are certain basic interests we share in all of the NIS. Discrete because the Caucasus is a geopolitically coherent region with its own impressive history, challenging present and promising future.

Our task with our partners in each of the three Caucasus states is to bring that future closer.

Thank you.

[The prepared statement of Mr. Herbst appears in the appendix.]

Mr. ROTH. Thank you, Mr. Herbst.

I think before we go on to some questions, and we do have some questions for you, I think you brought up some issues here that we should focus on. I am going to ask Ambassador Presel and Mr. Adair to give their testimony and then we will go on to the questions.

Ambassador Presel.

STATEMENT OF HONORABLE JOSEPH A. PRESEL, COORDINATOR FOR REGIONAL AFFAIRS AND SPECIAL NEGOTIATOR FOR NAGORNO-KARABAKH, U.S. DEPARTMENT OF STATE

Mr. PRESEL. Mr. Chairman and members of the committee, thank you very much for giving me the opportunity to testify about the conflicts that unfortunately still plague the Caucasus 5 years after the collapse of the Soviet Union.

My colleague, Mr. Herbst, has just outlined our efforts on behalf of the independent democratic development and economic prosperity of the three Caucasus states, individually and as a region.

The separatist conflicts are the greatest threat to those goals. The wars have been devastating to the efforts of the Caucasus states to develop.

Azerbaijan has the burden of 780,000 refugees and displaced people. That is over 10 percent of its population. Armenia and Georgia

each have around 300,000. This is a human tragedy as significant as any other in this decade.

There is also an economic tragedy. Resources that might have gone into rebuilding backward economies and integrating them into the world market have been devoted to war.

The conflicts have hampered the commercial and industrial development of the Caucasus, while what is needed is regional cooperation.

The conflicts have led to embargoes, which were sometimes called blockades, that cripple the transportation and communication links of the region. Realistically these will end only with the achievement of peace.

Finally, politically the conflicts make the Caucasus states vulnerable to outside pressure, including from Iran.

With the perspective of 5 years, we now have a better understanding of what it was that caused the conflicts in Nagorno-Karabakh, Abkhazia, Ossetia and elsewhere in the Caucasus.

We see these tragedies as resulting primarily from the collapse of the Soviet empire. In these wars we see the expression of nationalism, bottled up under the Soviet Union and unleashed on its collapse.

Just as an example, it was one thing, I was once told, to be a member of an ethnic minority in the Soviet Union where everyone was ruled out of Moscow and ethnic groups were, by and large, oppressed equally. It is another thing to be a minority in a small republic run by and for another ethnic group.

With a better understanding of the causes of the conflicts, we are active in seeking the resolution. In Nagorno-Karabakh, we play a leading role in the OSCE's Minsk Group, which is composed of ten countries, plus the parties to the conflict.

The Minsk Group is seeking to negotiate a settlement and will be the vehicle for organizing and deploying a peacekeeping force when that settlement is reached.

We also act directly. Deputy Secretary Talbott and Deputy National Security Advisor Berger visited the region in March and both Ambassador Collins and I are frequent visitors to the region.

We have facilitated and strongly support a confidential dialog now in progress between Armenia and Azerbaijan.

President Shevardnadze of Georgia has been outspoken in his desire for U.S. involvement in resolving the conflicts in his country.

We are active in the Friends of Georgia, the contact group seeking a resolution in Abkhazia. Our diplomats are posted to the OSCE mission in Georgia, which monitors the Ossetian cease fire and we have four military officers serving with UNOMIG, which monitors the cease fire in Abkhazia.

We are also working with Russia, which, as the former colonial power, has complex relations with all three states. Russia, arguably, has contradictory aims in each country and in the region as a whole.

As in the dissolution of the other great European empires in the 1950's and 1960's, the end of the Soviet empire is difficult and emotional for both the colonial power and the colonized peoples. This has greatly affected the conflicts in the region and has hampered their resolution.

As the three Transcaucasus states develop their identities and move toward a more normal relationship with Russia, their other neighbors and with each other, this will, we hope, become less of a factor in the conflicts. We press Russia to play a constructive role in the search for peace.

Mr. Chairman, that search will not be over tomorrow. The parties to each of the conflicts still make maximilist demands. In all of them the parties are far apart.

We will continue our hard work. The Caucasus remains a volatile region. The dangers of instability are clear, but so too are the rewards of regional cooperation. It is worth the effort.

Thank you very much.

[The prepared statement of Ambassador Presel appears in the appendix.]

Chairman GILMAN. Thank you for your testimony.

Now we have Mr. Marshall Adair, Deputy Assistant Secretary, European and Canadian Affairs.

Mr. Adair, you may put your full statement in or abbreviate it and submit it for the record, whichever you prefer.

STATEMENT OF MR. MARSHALL ADAIR, DEPUTY ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND CANADIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. ADAIR. Thank you, Mr. Chairman. I have submitted a written statement and request that it be included in the record.

Chairman GILMAN. Without objection.

Mr. ADAIR. I will now provide you a shortened version addressing Turkey's position in the region, its interests and possible ways in which it can contribute to stability and development.

Turkey has been an important player in this region for centuries, by virtue of its geographic location, strong ethnic ties to the region and economics. It is likely to continue to be a significant player for the foreseeable future.

The United States has an important relationship with Turkey and the interests of our two nations in this region complement each other in many ways. We can and should work together to achieve common goals.

Turkey's most important interests in the region are strategic and economic. Strategically Turkey needs to assure that the nations of the Caucasus remain independent, stable and at peace with each other.

As such, they are less likely to present a threat to Turkey's own borders and they reduce the ability of other powers to project influence into the region.

In particular, Turkey has a long history of competition with Russia in the Caucasus and remains deeply suspicious of resurgent Russian ambitions there.

For these reasons, it is very much in Turkey's interest to see the Nagorno-Karabakh issue resolved peacefully and to develop and maintain positive relations with Armenia.

Turkey has tried to play a constructive role, in spite of substantial domestic pressure to get involved in the conflict.

Economically, Turkey is interested in developing opportunities for exports of Turkish goods and services. It is also interested in

the Caspian Basin's energy resources. Turkey needs energy for its own economy and it could also benefit significantly by providing transit for those resources to western markets.

There are a number of ways in which Turkey can contribute to stability and economic development in this region.

First, if Turkey is to serve as a democratic model for the region or promote development beyond its borders, it must take steps to advance its own political and economic reforms.

The United States can help by continuing to encourage these efforts as we did actively last year with the cooperative effort to complete the customs union between Turkey and the European Union and we can also help by continuing to provide strong support for the Turkish Government's fight against terrorism.

We can help by being firm and consistent in our economic advice bilaterally and in multilateral fora and also by being reliable providers of assistance.

Second, while Turkey cannot solve the Nagorno-Karabakh conflict by itself, it can take steps which would significantly improve the environment for a solution.

It can continue to encourage reasonable behavior on the part of the Azerbaijani Government, as well as efforts to improve relations with Armenia.

A good example is former Prime Minister Yilmaz's March offer to reopen the land border, if the two parties to the conflict agreed on a statement of principles.

The United States can set an example for such initiatives by finding ways to resume our assistance to Azerbaijan.

Additionally, we can help by avoiding new antagonisms, such as legislation which makes it more difficult for any of the parties to act constructively.

Finally, one of the most important economic contributions which Turkey can make to this region over the next 5 to 10 years would be the provision of a viable pipeline which could move Caspian oil quickly and economically to western markets.

A route through Turkey need not supplant the line which is projected to run from Baku to Novorosysk. There is likely to be more than enough oil to justify multiple pipelines.

A route through Turkey, however, would make it possible to return revenues quickly to the region for general economic development and further investment in oil production and transportation infrastructure.

In order to make such a pipeline possible, Turkey would need to promote an attractive economic environment, good relations with its Caucasus neighbors and also a forward-looking policy towards oil transit through the Bosporus.

The United States, for its part, must maintain clear and active support for commercially viable pipelines with all the parties in the region.

We can also assure that ExIm Bank and OPIC give serious consideration to the proposals of potential investors. We can also provide more support for Turkey's management of Bosporus transit traffic.

In conclusion, Mr. Chairman, there are tremendous opportunities for political and economic development in the Caucasus. We have

an important interest in realizing those opportunities. This interest is shared by Turkey. We can and should work together.

Thank you.

[The prepared statement of Mr. Adair appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Adair.

This panel of witnesses and this hearing is especially important to us as we recognize a stability in the Caucasus region is in American interests.

I am certain that many of us see Russian reactor and arms sales to Iran as counter to American interests and the committee is particularly interested in seeking exactly what are the American interests in the Caucasus region and whether those interests are truly being advanced.

It is for that reason that we welcome our panelists. We appreciate your appearing and testifying. I am going to ask that my full opening statement be made part of the record.

[The prepared statement of Mr. Gilman appears in the appendix.]

Chairman GILMAN. At this time we will proceed to the questioning of our witness.

I just would like to remind our witnesses that at 12:30 we are going to have to recess until 2 p.m. for our second panel of private witnesses on several important issues.

We regret having to do that, because we had previously scheduled a very important meeting prior to this scheduling and between 12 noon and 2 p.m. and we will be engaged elsewhere.

Let me ask the first question. According to the July 28 edition of The Washington Times, a former chief of security in Georgia has claimed that Russian security forces were behind the 1993 shooting death of CIA agent, Fred Woodruff of Georgia.

Does our government still stand by its earlier description of the shooting of Woodruff as a random act of violence? I address that to any of the panelists.

Mr. HERBST. The Georgian Government has denied the allegations in those charges. The Georgian Government has tried and convicted someone for the crime of killing Freddie Woodruff.

As you know, we sent an FBI team out to Tbilisi to look into the matter. We have seen no evidence which corroborates those charges either.

Chairman GILMAN. Do any of our other panelists wish to comment on that question?

Is there any evidence of Russian involvement in the car bomb assassination attempt against Georgian President Eduard Shevardnadze in August, 1995?

Mr. HERBST. We have no evidence of that kind.

Chairman GILMAN. Any other comments by any of the panelists?

Has it been the historical pattern since before the start of the 19th century for Russia to seek to exploit the ethnic tensions among the Caucasus people in order for it to benefit from the resulting conflicts?

Again, I address that to any of our panelists.

Mr. PRESEL. I am sorry, sir. May I ask you to repeat the question? I did not understand you. I apologize.

Chairman GILMAN. Has it not been the historical patterns before this started in the 19th century for Russia to seek to exploit the ethnic tensions among the Caucasus people in order for it to benefit from the resulting conflicts? Has not that pattern been established by historical background?

Mr. PRESEL. Yes. I think it is certainly fair to say that.

Chairman GILMAN. Anyone want to comment? Any other panelist?

Mr. Adair, last year there was a significant incursion by Turkish forces into northern Iraq. The ostensible reason given by Turkey was to eliminate bases used by Turkish terrorists to stage attacks inside of Turkey.

Since that large military operation there have been other incursions into Iraq, just within the last few days. What is our position on these actions by Turkey and is U.S.-supplied military equipment being utilized by Turkish forces?

Mr. ADAIR. First of all, Mr. Chairman, as you know the Turkish Government has maintained that it needs to do this to protect itself against the danger presented by PKK forces in northern Iraq.

We have maintained that the government of Turkey definitely has a right to protect itself from any external threats.

It is virtually certain that U.S.-provided equipment has been used in those incursions, because most of the equipment in the Turkish arsenal is U.S. equipment. We believe that this is a legitimate use, because it is a use designed to protect Turkey's security.

Now let me add to that, in anticipation perhaps of your next question. When that incursion took place last year, we went to Turkey and we made a very forceful representation that while we recognized their right to defend themselves, it was also essential that they make every effort to protect civilians in that area.

We believe that they did so. In fact, at that time they publicized their rules of engagement and from all the reports that we had in that engagement, they were successful in keeping civilian casualties to a minimum. We believe that that has been generally true for the other smaller incursions since that time.

Chairman GILMAN. What about the most recent incursion?

Mr. ADAIR. The most recent incursion was substantially smaller. Are you referring to the one last month?

Chairman GILMAN. Within the last few weeks.

Mr. ADAIR. I think it was last month. It was substantially smaller, but it was for the same reasons and they essentially used the same rules of engagement and exercised the same care.

Chairman GILMAN. Any other panelist wish to comment?

Mr. ADAIR. I am sorry?

Chairman GILMAN. I am asking if any other panelist wishes to comment.

If not, Mr. Hamilton.

Mr. HAMILTON. Mr. Chairman, thank you.

Gentlemen, I want to try to get in my mind the U.S. national interest in this area. You have a lot of instability here. Two nations, Armenia and Azerbaijan, are in a virtual state of war with one another.

Georgia has got a war within itself over the break-away province of Abkhazia. The whole region is very close to Chechnya.

At the same time, you have a region, I presume, of considerable promise with a lot of natural resources, principally oil. Is this an area that is of vital interest to the United States?

Mr. HERBST. The United States has important interests. Very important interests in the Caucasus. Interest one is ensuring stability there.

Interest two is promoting reform there such that the area will be stable. Interest three is ensuring this area is open to commerce and political communication with the rest of the world.

Mr. HAMILTON. We would have those interests anywhere in the world, would we not?

Mr. HERBST. I think that we need to keep in mind that for most of the period following World War II the principal threat to the United States came from territory of the former Soviet Union.

Building up the states that once were incorporated in the Soviet Union is a way to ensure stability throughout an area which once created problems for the United States. Serious problems.

Mr. HAMILTON. You do not describe these interests as vital to the United States.

Mr. HERBST. I would say they are very important interests.

Mr. HAMILTON. But not vital. Is that your testimony?

Mr. HERBST. Again, I would say they are very important.

Mr. HAMILTON. But not vital. Is that your testimony? Okay. I will not press it any farther.

Mr. HERBST. Could I just add one more thing, which I think adds to the importance of the region? That is, the energy reserves that they have. The reserves are substantial.

Developing them would greatly contribute both to the development of the region, as well as I think to our interest in finding additional sources of energy around the world.

Mr. HAMILTON. Those reserves are the second largest in the world, are they not, after the Persian Gulf? Forty-two billion barrels of proven oil reserves.

Mr. HERBST. Yes.

Mr. HAMILTON. So it is a tremendously important area.

Mr. HERBST. Yes.

Mr. HAMILTON. From the standpoint of oil.

Now, we have an aid program there that is kind of interesting in its distribution. Eighty-five million dollars for Armenia, which has 3½ million people.

Twenty-two million dollars for Georgia, with a population of 5.8 million. Eleven million for Azerbaijan, even with the restrictions, for a 7.8 million population. All of Russia gets $147,000,000 in aid. I am giving you 1996 figures. Russia has a population, of course, about 150,000,000.

Now, do you believe these earmarks reflect accurately U.S. foreign policy priorities?

Mr. HERBST. As I think you know better than I do, Mr. Hamilton, we are not fond of earmarks. Our judgment is that we would be better able to direct our aid to suit our interests, and that suits humanitarian requirements, if there were no earmarks. That includes in our aid to the NIS.

Mr. HAMILTON. So you would prefer not to have any of these figures designated in statute?

Mr. HERBST. Correct.

Mr. HAMILTON. What would you do if they were not?

Mr. HERBST. I learned a long time ago that getting into hypotheticals is not always the best way to handle—

Mr. HAMILTON. No. But, you must have your own sense of priorities. I mean is $85,000,000 for Armenia, for example, a rough kind of reflection of our priorities in the Caucasus? That is many times more than Georgia. Well not many times. Four times more than Georgia.

Mr. HERBST. As I suggested in my opening statement, we think that if we did not have restrictions related to 907 we would be able to provide more and more effective assistance to Azerbaijan. So certainly we would like to be able to rearrange our priorities if we had the opportunity.

Mr. HAMILTON. In rearranging the priorities, what would you do? Give more to Azerbaijan?

Mr. HERBST. Well, I think—

Mr. HAMILTON. And much less to Armenia?

Mr. HERBST. I do not know about less, but I think that Azerbaijan certainly would get more assistance if we were able to provide it.

Mr. HAMILTON. So the figures you have that are imposed on you, I understand by the Congress, do they roughly reflect our priorities in the region today from your point of view?

Mr. HERBST. We think that if we did not have restrictions we would be better able to channel our aid consistent with our interests.

Mr. HAMILTON. But I am trying to understand what you would do. How you would change the mix if Congress took the restrictions off?

Mr. HERBST. The only thing I think I can say confidently at this time is that we would provide more assistance to Azerbaijan if we were able to.

Mr. HAMILTON. That is the one area that you think ought to get more aid.

Mr. HERBST. Right.

Mr. HAMILTON. The others you are not prepared to comment on; is that right? You just accept the—

Mr. HERBST. That is right.

Mr. HAMILTON. At this moment?

Mr. HERBST. Yes.

Mr. HAMILTON. But you have a different opinion in another moment?

Let me ask about the oil business a little bit. I do not understand that very well. There are proposals for several different pipelines traversing the region. You have one pipeline today; is that right?

Mr. HERBST. Yes.

Mr. HAMILTON. You have a decision to build a second pipeline; is that correct?

Mr. HERBST. Yes.

Mr. HAMILTON. I guess there are discussions of a third pipeline as well. Now, what is the U.S. position on these multi-pipeline routes? These Caspian Sea routes?

Mr. HERBST. Well, in the first instance, we think that commercial interests should be predominant. We also believe though that multiple pipelines are a way to promote commerce.

With multiple pipelines, oil would be exported by more than one route, which would reduce the leverage from, say, a single pipeline. It also gives multiple countries a stake in the process.

Mr. HAMILTON. So we like the idea of multiple pipelines?

Mr. HERBST. Correct.

Mr. HAMILTON. Can the Russians block those new routes if they want to?

Mr. HERBST. I think that it is in the interest of all countries in the area to promote multiple pipelines.

Mr. HAMILTON. Including Russia.

Mr. HERBST. I suppose in a purely theoretical sense, yes.

Mr. HAMILTON. Let me ask you one other question, Mr. Chairman, and that is the role of Russia in this region.

Do you think the Russians gradually want to reassert direct control over these countries we have been talking about? Is that the purpose of Russian foreign policy today?

Mr. HERBST. The Russian Government has made clear that its relations with the New Independent States is a priority.

Mr. HAMILTON. Well, what does that mean?

Mr. HERBST. Okay. Let me continue. The Russian Government as well has placed a great deal of emphasis on invigorating the Commonwealth of Independent States, the CIS.

There was a famous moment in the Duma last March when a majority passed a resolution which deplored the dissolution of the Soviet Union. President Yeltsin sharply criticized that and the Duma found itself on the defensive for doing that.

The Russian Government has told us on numerous occasions—we have had conversations at high levels on this—that their only interest is in proceeding with rational economic integration.

Having said that, we have heard other things from the New Independent States. We think this is an issue which bears close watching.

Mr. HAMILTON. Do these three states think that Russia wants to directly control them?

Mr. HERBST. I think that is a question better addressed to those states. I would say that—

Mr. HAMILTON. Well, what do we think about it? Of course it is better addressed to those states. I understand that, but those states are not in front of me right now. You are in front of me.

I would like to know what we think they think.

Mr. HERBST. There are some concerns particularly in Georgia and in Azerbaijan regarding Russian intentions. I do not think it is possible to characterize them more concretely than concerns.

Mr. HAMILTON. Do they fear Russia?

Mr. HERBST. I think that given the history they have certain skepticism regarding Russia and its intentions.

Mr. HAMILTON. So do we then think that Russia is directly trying to assert control of these countries today? Do we think that?

Mr. HERBST. Directly assert control of these countries? I would have to say no in direct answer to that question.

Mr. HAMILTON. What is our view of Russia's interests and goals with respect to these countries?

Mr. HERBST. I think that our former ambassador to Moscow, Jack Matlock, had an interesting juxtaposition between Russia's real interest in the Caucasus as well as the other New Independent States and what might be considered to be perceived interest, you might say, under the old kind of thinking.

I would say Russia's true interests in this area, interests consistent with Russia's aim for example to join the international community as a full member would require to treat these countries in ways consistent with international law, with—

Mr. HAMILTON. Well, that is what we would like, obviously.

Mr. HERBST. Correct. I think if you look at Russian policy you see that there are many voices and some voices are of an old sort. And we saw those voices, for example, when discrete Russian military units were operating in Abkhazia in 1993.

Mr. HAMILTON. All right. So, there are voices at least, if I understand your answers, there are voices in Russia today that we think want to assert direct control over these countries.

Mr. HERBST. Even that I think is a little bit too baldly stated. There are voices in Russia which have a yearning for an old way of doing business.

That includes, you might say, projecting more influence and in ways that neither we nor the international society would consider right.

Those voices were clearly evident in the vote on the dissolution of the Soviet Union in the Duma last March.

Mr. HAMILTON. But you do not think that is the policy of Russia today?

Mr. HERBST. I think it would be hard to pin Russian policy to that particular wall.

Mr. HAMILTON. You would acknowledge that Russia has very important interests in this region?

Mr. HERBST. Russia may consider its interests at that level or higher.

Mr. HAMILTON. Vital?

Mr. HERBST. Perhaps.

Mr. HAMILTON. But you do not see at this point that Russia is seeking direct control of these countries?

Mr. HERBST. I would not use that formulation.

Mr. HAMILTON. What formulation would you use?

Mr. HERBST. That again there are different voices in Russian policy. That Russia has interests in these countries.

Mr. HAMILTON. There are always different voices, but what do you perceive the policy to be now towards these countries, with respect to this question of influence or control?

Mr. HERBST. I think that Russian policy is not, as you asked, directly seeking control over these countries.

Chairman GILMAN. The gentleman's time has expired.

Mr. Berman.

Mr. BERMAN. Thank you, Mr. Chairman.

We recently had the issue of the humanitarian aid corridor before the House and the question of a presidential waver. Some of us voted against that because of the importance we think of assist-

ance to Turkey and the belief that the Administration was committed to trying to reopen a corridor through Turkey for assistance to Armenia.

Could any of you describe what the Administration is now doing to achieve the reopening of a land corridor through Turkey and what the cost to Armenia is of not having that corridor at the present time; what it is costing in terms of vital supplies that it needs?

Mr. ADAIR. Okay. I will try to answer that for you. Let me start by saying that Turkey has tried to maintain or to build better relations with Armenia and it actually kept all of its transportation avenues open to Armenia up until early 1993, when the conflict intensified and large sections of Azerbaijani territory were occupied.

Then in response to domestic political pressures, Turkey closed off all of its trade with Armenia.

Subsequent to that, however, Turkey has tried to play a constructive role. It has been very active in the Minsk process and it has rebuilt its contacts, first quietly and more and more openly with Armenia. It has tried to use those to promote a resolution of the Nagorno-Karabakh situation.

In the spring of 1995, the Turkish Government reopened the air corridor as a gesture to Armenia. We had strongly encouraged that and there had been substantial contacts between Turkey and Armenia leading up to that.

Later in March of this year, Prime Minister Yilmaz moved Turkey's position forward a little bit more. They had asserted that the land corridor could not be opened until the territory was returned.

He changed that to say that Turkey would reopen that land border if the two parties would simply agree to a statement of principles on which negotiations would continue.

We welcomed that, but we have in our contacts with Turkey, with the government of Turkey, continued to encourage them to open the land border itself as an initiative.

We cannot by ourselves overcome the pressures of domestic politics in Turkey. Those are there. So, we try to work with them, first of all by encouraging Turkey and secondly by intensifying our own efforts to achieve a peace to resolve the Nagorno-Karabakh situation.

I think that would be my answer to your question. Ambassador Presel may wish to elaborate on that.

Mr. PRESEL. Well, I can try to answer the second part of your question, Congressman.

Mr. BERMAN. All right.

Mr. PRESEL. I have never seen any attempt to quantify how much it costs the Armenian economy because of the existence of the trade embargo. Obviously it does.

I do think, however, it is fair to point out that there are an awful lot of Turkish goods to be found in every shop in Yerevan.

Turkey has a reputation for cheap, fairly high quality products and there is quite an active trade through Georgia of Turkish goods into Armenia.

Mr. BERMAN. But that does not deal with the question of assistance or trade from other countries that would most efficiently be moved through Turkey.

Mr. PRESEL. That is a fair comment. I would also add that the Armenian Airlines is now running a charter flight weekly to Istanbul and there is a certain amount of pressure in Turkey, I have heard it from Turkish officials with whom I speak quite regularly, from deputies from eastern Turkey who would like the embargoes lifted in order precisely for eastern Turkey to benefit from the undeniable advantages that would come from having free and open trade with Armenia.

Mr. BERMAN. Mr. Chairman, may I just ask a follow-up question?

Chairman GILMAN. Without objection.

Mr. BERMAN. I am told that our position on Nagorno-Karabakh is that we want it to have the highest level of autonomy within Azeri sovereignty. Is that an accurate description of our policy?

Mr. PRESEL. Not quite, sir. We want the conflict resolved in a way that is acceptable to all the parties. That is the only way you are going to have a settlement that is going to last.

There is no sense trying to negotiate a settlement which is only going to last for 3 years. So by definition it has to be one that all of the parties accept.

Mr. BERMAN. If that is our policy, how does not meeting or how does the Administration's not meeting with representatives of Nagorno-Karabakh help that policy?

Mr. PRESEL. We do. We meet with representatives from Nagorno-Karabakh all the time. I myself see Robert Kocharian either in Yerevan if he is there, or I go to Stepanakert on my trips and talk with him.

I see Arkadly Gukassian, who is the Karabakh representative to the Minsk Group at all of the Minsk Group meetings. There is no lack of contact with officials from Karabakh. That is not the problem.

And for that matter, the Armenians and the Azerbaijanis both have subscribed to the OSCE documents and they speak of preserving the territorial integrity of the countries that have subscribed to them.

It is the position of Armenia, as well as of the United States and of Azerbaijan, that the solution to Nagorno-Karabakh will not result in it leaving formally Azerbaijan, neither as an independent country, nor as part of Armenia.

Now the exact modality—

Mr. BERMAN. You are saying the Armenia position is that.

Mr. PRESEL. The position of the government of Armenia.

Chairman GILMAN. The gentleman's time has expired.

We are confined because of another appointment that we will all have to attend. Just one last question. I understand that yesterday Iran conducted a military operation into northern Iraq.

How might Iran's action impact on the vote in Turkey on renewing operation Provide Comfort that is scheduled for today? Would any of our panelists wish to comment on that?

Mr. ADAIR. I can comment. I do not know if I can answer that for you, Mr. Chairman, but we do not have a lot of information on the reported Iranian incursion into northern Iraq. We do not know the scale of it.

It is certainly something that Turkey would be extremely concerned about, both because they are concerned about Iranian influ-

ence and also because they are concerned about the situation in northern Iraq.

The vote that is taking place right now in the Turkish Parliament, at least the debate is going on right now and it is possible that the vote has even taken place by now, is a very difficult one.

The welfare party, which now has the Prime Ministership, has in the past opposed operation Provide Comfort, but as part of this coalition government, it has submitted to the Parliament a proposal that the operation be extended.

I have to be honest with you, Mr. Chairman. I do not think I can give you an intelligent answer to how the Iranian incursion is actually going to impact on the vote. We certainly hope that that vote will be positive. My guess right now is that they will extend it, but it is close.

Chairman GILMAN. Thank you. One last question. What is the need for Russia to have military bases in both Georgia and Armenia?

Mr. HERBST. I think in the first sense of the question you may want to address to the Russians. We are not sure what precisely the Russian rationale is for requesting bases in Georgia.

In the case of Armenia, the Armenians asked the Russians to stay when they were planning on withdrawing shortly after the demise of the Soviet Union.

Chairman GILMAN. Any other panelist want to comment?

If not, without objection, the majority and minority will submit several questions for answers in writing following the hearing. We thank our panelists for being with us.

[Answers to the submitted questions appear in the appendix.]

Our committee is in recess until 2 p.m.

[Recess.]

Chairman GILMAN. The committee will come to order. Our Committee on International Relations will now continue with our hearing that began earlier today on the topic U.S. Interests in the Caucasus Region.

Earlier, the committee took testimony from a panel of three State Department officials who are involved with our foreign policy towards the Caucasus states, Russia and Turkey.

The committee is pleased to now hear from a panel of private witnesses, including Ambassador Richard Armitage, president of the Armitage Associates and former State Department Coordinator of the U.S. assistant to the New Independent States of the former Soviet Union. Welcome, Ambassador Armitage.

Dr. David Nissman, adjunct professor for Caucasian and Central Asian History of Georgetown University. We welcome the professor.

Mr. Robert Ebel, director of the Energy and National Security Program at the Center for Strategic International Studies. Welcome, Mr. Ebel.

In our earlier portion of this hearing, members of the committee focused on the role of Russia and Turkey in the Caucasus states, as well as some of the difficult aspects involved in resolving the conflict in Nagorno-Karabakh.

I would now like to invite our witnesses to provide their thoughts and insights on these and related topics. In particular, the efforts

that Russia and Iran may be undertaking, if any, to manipulate and control the small states of the Caucasus region.

I would ask the witnesses if they would be kind enough to limit their testimony to around 5 minutes. They may submit their full statement for the record and without objection that full written testimony will be inserted in the record.

At this time, I do not see any of our members. I am sure they will be joining us as we go along.

So let us now begin and we will begin with Ambassador Armitage.

STATEMENT OF AMBASSADOR RICHARD ARMITAGE, PRESIDENT, ARMITAGE ASSOCIATES

Mr. ARMITAGE. Mr. Chairman, thank you very much. I am delighted to see you again and I particularly want to congratulate you and your colleagues for taking the time and showing the interest to delve into this very complicated and very tangled matter.

If I can set the stage a bit, I would like to talk a little about Russia before getting into the main part of my presentation, which concerns Armenia and Azerbaijan.

When Lenin unleashed the Red Army to snuff out independence in Georgia and Azerbaijan and when Stalin made common cause with Hitler to gobble up the Baltics and half of Poland, they were not necessarily following some script that was written by Lenin or by Marx.

Likewise, when Mr. Yeltsin brutalized citizens of Grozny, when he foments unrest in Abkhazia and pressures Georgia, when he bullies and causes problems in Baku, Azerbaijan, he is not following a blueprint that was written by Montesquieu or by Locke.

It seems to me that the Russian appetite for expansion has been a constant, whether it is under the czars, the commissars or their successors.

I think we have to take this into consideration when we view the nations of Georgia, Armenia and Azerbaijan. With Azerbaijan in particular, not only does it have the ominous weight of the Russians, it has got the ominous pincher movement by the Iranians, which you mentioned in your opening comments.

I will not sit here, Mr. Chairman and tell you that instability in the Transcaucasus represents a vital American interest. It does not. It is, however, an opportunity for the United States and our citizens to act constructively and in a manner consistent with our own political and economic equities.

This difficult corner of the world is the place where great issues, the dissolution of the Soviet Union, the explosion of ethnic conflict and the presence of significant petroleum reserves, all combine to create a diplomatic challenge of the first order.

I am one of those people who is very enthusiastic about a very energetic U.S. diplomatic activism in the Transcaucasus.

Now some in Congress have felt obliged from time to time to express themselves in a manner that seems to favor one ethnic group over another.

Although that is true, it is still a fact that the states of the regions view us as an honest broker. If our principle diplomatic objective is to help parties resolve conflict and build linkages to help to

ensure their independence and prosperity, I would certainly hope that Congress will support the efforts of the executive branch to achieve that objective irregardless of partisan pressures or domestic political pressures that you may feel.

Like many Americans who tried to play a constructive role in bringing relief to those who have suffered from war and from blockade, I believe I am privileged to have friends on both sides of the Armenia-Azerbaijan divide.

I strongly believe that within the region there is a strong desire to resolve the Nagorno-Karabakh dispute and get on with developing and sharing the enormous economic potential that the Caspian holds for all, including Armenia.

I would hope and pray that private American citizens who lobby Congress on this issue will keep foremost in their minds the long-term interest, not only of the United States, but of those who actually live their lives in this troubled region and who must face the awful consequences of military victory or military defeat.

The fact of the matter is that there will be neither victor nor vanquished unless we are prepared to see this turmoil today stretched for decades and decades into the next century.

I would like to see Armenians on their own come to the realization that the occupation of Azerbaijan's territory and the massive refugee problem that that occupation has created may represent a dead end for Armenia.

Equally, I would like Azerbaijan and its Turkish ally to recognize that impediments to the delivery of humanitarian assistance to Armenia have no practical value except to encourage those whose interest in a settlement, equitable or otherwise, is absolutely minimal.

So, while I will be content, Mr. Chairman, to leave to it to the experts to devise a solution of the status of Nagorno-Karabakh, I would like to see an extraordinarily active U.S. diplomacy in the area.

I would like to see a diplomatic initiative rooted in ameliorating the humanitarian disaster that has affected all parties. A disaster that, unless corrected, is laying the basis for decades of needless suffering.

I would trust that Congress would encourage the Administration to act creatively and to support efforts along this line, irrespective of domestic pressures to take side.

Thank you, Mr. Chairman.

[The prepared statement of Ambassador Armitage appears in the appendix.]

Chairman GILMAN. Thank you, Ambassador Armitage.

Dr. Nissman.

STATEMENT OF DR. DAVID NISSMAN, ADJUNCT PROFESSOR, CAUCASIAN AND CENTRAL ASIAN HISTORY, GEORGETOWN UNIVERSITY

Mr. NISSMAN. Thank you, Mr. Chairman.

I would like to describe exactly how Russia and Iran are playing with the Caucasus. When the three Transcaucasian republics became independent, it became clear to Moscow very rapidly that the allegiances of these three republics were rapidly shifting westward.

In order to impede this process, Moscow generated a policy aimed at maintaining an imbalance of power and in this policy it has found a willing collaborator in the Islamic republic of Iran.

In these southern republics, the policy selected could be called ethnocratism, a term incidentally coined by a Russian journalist who was criticizing the Russian approach.

Ethnocratism is a powerful tool in the hands of a power wishing to use the potential for ethnic conflict to destabilize new nations with a diversified ethnic population. This policy has been effective in Georgia and Azerbaijan.

Iran staked out its own interests by collaborating with Russia on a question of the Caspian Sea and by the Russian-Iranian-Turkmen-Armenian transit agreement, which will be the means by which Iran acquires Russian nuclear technology.

Azerbaijan has become Iran's special target. Russian ethnocratic policy has spawned a Lezgian separatist movement in the north of Azerbaijan.

This group, called Sadval, has not stopped at using terrorism to further its ends. It was this group that planted the bomb in the Baku metro system last year that took 14 lives.

Iran has also been busy in promoting the export of its own brand of Islam to the region. As one Azeri official stated, after 1979, Iran exported Islam like the Russians exported communism.

My last point is that by the year 2000 the Caspian Sea will hold a position comparable to that of the Persian Gulf in global energy politics.

If the United States wishes to continue to play a major role in these energy politics, it will have to take a more active part in the development and future of the Transcaucasus than it is taking at present.

Thank you.

[The prepared statement of Dr. Nissman appears in the appendix.]

Chairman GILMAN. Thank you, Dr. Nissman.

Mr. Ebel.

STATEMENT OF MR. ROBERT E. EBEL, DIRECTOR, ENERGY AND NATIONAL SECURITY PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. EBEL. Thank you, Mr. Chairman.

Within the last several years the Caspian Sea Basin of the former Soviet Union has become the focus of attention for the world oil industry.

We have five nations bordering on the Caspian Sea, Russia, Kazakstan, Turkmenistan, Iran and Azerbaijan. Because their national interests do not always coincide and because of the power conferred by oil, development of the Caspian cannot be separated from politics.

The producing potential of the Caspian Sea Basin has caught the eye of the major international oil companies for several reasons.

First, there is nothing quite as attractive as something which in the past has been denied, but which is now available. Second, the Caspian-producing potential is world class.

Third, this potential cannot be realized within an acceptable time frame without outside participation. Fourth, domestic requirements are comparatively small. Most of the oil to be produced will be for the export market.

But we must be careful not to over-estimate the contribution of Caspian oil to world oil supply. Caspian oil cannot compete with Persian Gulf oil in terms of easy access to major world markets, in terms of levels of production or in costs of production. That means that U.S.-Persian Gulf policies in the years ahead will be just as important as today, if not more so.

There are three of the littoral states which are land locked. Pipeline routes must be selected before oil and gas development can get under way.

The competition for pipeline routings is fierce and contentious. The players in the game of pipeline politics must remind themselves from time to time that peace can bring a pipeline, but a pipeline cannot bring peace.

Because Caspian Sea oil is surrounded by such divergent interests, it must be understood that compromise will be required for projects to go forward.

At the beginning, not all the parties fully understood just what compromise meant. It was finally recognized that compromise really meant there can be no game unless Russia is invited to play, whether in pipeline construction or oil field development.

The Caucasus will be a key transport corridor for Caspian oil, oil from Kazakstan, natural gas from Turkmenistan.

We talked this morning about two pipelines moving Baku oil to markets. One pipeline will link Baku with the Russian port of Novorosysk, but that pipeline passes through the heart of Chechnya, which makes the security of that pipeline questionable.

The second pipeline will link Baku with the Georgian port of Supsa. That pipeline passes within a handful of kilometers of the disputed enclave Nagorno-Karabakh. It too has a security problem.

What if Iran had been available as a transit country? Would Iran have been a more feasible routing? Some members of the consortium thought so.

However, I would suggest that Caspian oil moving through Iran and passing through the Persian Gulf cannot be considered any more secure than Persian Gulf oil itself.

In the end, the only really secure oil for the United States is the oil we can produce ourselves.

The U.S. Government and U.S. private interests in the region presently coincide. What will happen when the day arrives when those interests diverse?

What will happen when oil wealth begins to accumulate in Azerbaijan and its neighbors? Will that wealth be spent wisely?

Lastly, the cold war was distinguished by the role given to intelligence gathering and analysis. Should economic intelligence gathering and analysis be given a comparable position under today's circumstances?

In the past, Russia had not used oil and gas in support of its national interest, but that approach is changing. Russia has become much more aware of the geopolitical role that energy can play in

the pursuit of its national interests, but then that makes Russia no different than any other oil and gas exporting country.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Ebel appears in the appendix.]

Chairman GILMAN. I want to thank our panelists for your good testimony.

Mrs. Meyers.

Mrs. MEYERS. Thank you, Mr. Chairman.

I would like to ask some questions that you did not touch on as much in your spoken testimony, but in your written testimony you did and that has to do with Turkish-Armenian relations.

In early 1995, there was some effort by both Armenia and Turkey to make progress on the issue of setting up full bilateral relations as I recall and was that indeed the case, Mr. Nissman?

Mr. NISSMAN. Relations between Turkey and Armenia run hot and cold. They have run hot and cold since then. I think that the relationship can never really normalize until the Karabakh situation normalizes.

Mrs. MEYERS. Is it your impression that the Armenian Government is seeking to move beyond the historical issues of the Armenian genocide and claims to territories that were once considered Armenian in order to begin building a good bilateral relationship with Turkey?

Mr. NISSMAN. The Armenian Government has at times tried to distance itself from the claims of the republic of Nagorno-Karabakh.

I would postulate that the more they distance themselves from this the greater the chance of a kind of detente and perhaps even a development of good relations with Turkey.

Turkey tends to view Armenia, of course, as a potential market for its own goods, either produced in Turkey or for which Turkey is used as a basis of transport.

There is thinking in both countries that establishing a good relationship, if not necessarily a relationship of overwhelming friendship, would definitely be in both their best interests.

But, there is still this question of Azerbaijan that comes between them. Once this question is removed, as I said at the outset, I think that the relationship should normalize.

I think that the question of genocide will remain a question, but one not quite as much at the forefront as the kind of stimulus for future action so much as a kind of something to remember with sorrow.

Mrs. MEYERS. Turkey seems to have moved away from its initial position that the Karabakh be settled first, now stating that it will accept an agreement on the principles underlying a settlement to that conflict, not necessarily the settlement itself in order to reopen its border with Armenia.

Mr. NISSMAN. Yes, that is true.

Mrs. MEYERS. Is there any evidence that Russia would prefer to see Turkey and Armenia at odds with each other so that Armenia will gravitate to Russia's sphere of influence?

Mr. NISSMAN. I think that at the moment Russia feels that Armenia is within its sphere of influence. They have provided them

with a great deal of aid and support and they have a large lobby in Moscow.

I do not think necessarily that good Armenian-Turkish relations are considered by everyone among Russia's policy makers as a good thing, but as far as hard evidence is concerned, I do not know any. It is just the way Russia has conducted its policy in Azerbaijan and Georgia.

Armenia is very different from both these states in that Armenia is a monoethnic state. That is to say, it is predominantly Armenian. Its largest minority population, aside from Russians, are Kurds, who are not Moslems.

They have been there for some time and Armenia has been a Kurdish center. This has also been a bone of contention between Armenia and Turkey, I might add, including quite recently.

Russia in fact last year used the existence of the PKK conflict in Turkey, the Kurdish workers party movement in Turkey, to threaten the possibility of building a pipeline to the Mediterranean Sea by claiming that this pipeline would run over what they call Kurdistan, which was actually in Turkey.

Mrs. MEYERS. How concerned is Turkey over Armenia's recent reopening of the nuclear reactor facility at Medsamor near the earthquake fault line that last gave away in 1988, leading to the 7-year shutdown of that plant? Are Turkey and Armenia discussing this matter?

Mr. NISSMAN. I do not know.

Mrs. MEYERS. Anyone else care to comment?

Mr. ARMITAGE. Well, I do not know if Turkey is discussing it, but I hope we are discussing it with Armenians.

During the latter part of the Bush administration, we were very keen on doing whatever we could to solve, to some extent, the energy needs to keep that reactor from reopening. It was our feeling at the time that, somewhere down the road, this was a real problem waiting to happen that would affect all of us.

Mrs. MEYERS. Would any of you like to make any further comments at all on Turkish-Armenian relations?

Mr. ARMITAGE. I think that the good news, as my colleague, Dr. Nissman, has said, is they both need each other. It is a very complex relationship.

Armenia, being land locked, needs Turkey. Turkey, having interest in central Asia, needs a bridge, which could be, under good circumstances, Armenia.

So, that is the good news. I think the job for United States and other interested parties in the diplomatic sphere is to do our best to bring about a situation where while the parties do not have a warm friendship, at least they can achieve a cold peace and can get on with business which is mutually beneficial.

Mrs. MEYERS. Mr. Ebel, would you like to comment at all?

Mr. EBEL. I could make one comment on the Medsamor nuclear power plant. It was reopened with the rather substantial aid of Russia.

You can understand from an Armenian point of view after being denied fuel for its thermal power plants, there sat an idle nuclear power plant. You are not particularly concerned about its safety, while you are freezing in the dark.

They did reopen it. It is not the kind of a nuclear power plant which exploded in the Ukraine. It is not that kind of a reactor. The western concern of course has to do with its relationship to a geologic fault, which is about 20 kilometers away. That has to be of concern.

Mrs. MEYERS. Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mrs. Meyers.

Can any of you explain why Russia has to have military bases in Georgia and Armenia? What is the rationale for that?

Mr. NISSMAN. Their traditional rationale has been they traditionally have been very fearful of the southern borders and they feel that by throwing out a defensive perimeter as widely as possible they actually add to their own security.

That is one way of looking at it. There is another way of looking at it and this is as an expansionist power. They have been trying this road to expansion through the Caucasus since the early 19th century. It is one of the ways by which they mean to keep these countries more tightly within their sphere of influence.

For this reason, for example, the relations between Russia and Azerbaijan sort of reflect this; the Russian demand for a joint air force, for a military base and also for the use of Russian border guards guarding the Azerbaijani-Iranian border.

This of course Azerbaijan has rejected, the only one of the three Transcaucasian republics which has done that. They have rejected it because it would strike a blow at their sovereignty.

In the case of Georgia, it must be recalled that at the time the Russians secured their presence there, they just finished sponsoring the Abkhazian secessionist movement crisis, the troubles of which are still going on, but they did openly support this movement until 1993.

In the case of Armenia, of course, Armenia and Russia have always been close in that sense. Armenia feels that Russia is its protector.

Mr. ARMITAGE. If I may, Mr. Chairman, I think my colleague, Dr. Nissman, has given a very excellent exposition of both sides of the question.

I believe the weight of history clearly comes down on the side that Russia acts an expansionist power and uses military bases in far flung locations to consolidate that power. I think it is as simple as that.

Mr. NISSMAN. I agree.

Chairman GILMAN. Any other comments by the panelists?

Have Russian border troops stationed in Georgia and Armenia's borders with Turkey engaged in any corrupt activities, to your knowledge, such as drug smuggling?

We have had reports among Russian border troops stationed elsewhere in the former Soviet Union that there have reports of such illegal activity. Any reports that you are aware of? Any one of the panelists care to answer that?

Mr. ARMITAGE. It would be remarkable if they were to act in any different way. I think most of those who have enormous needs in uniform and in the Russian Federation are engaged in some form of corruption or another.

I would be shocked, as Claude Raios said, to find that they were not involved in such activity. Whether it is drugs or not, I cannot say at all. I would defer to my colleagues.

Chairman GILMAN. To all of our panelists, have there been any disagreements between Russia and Iran over the future gas and oil pipeline routes existing between the Caucasus and central Asia?

Mr. EBEL. To the best of my knowledge, Mr. Chairman, the answer is no. Iran and Russia are in the same bed when it comes to deciding the question of the legal status of the Caspian Sea. They both like to regard it as a lake, not as a sea.

I think both parties understand that a pipeline cannot be built through Iran these days under present circumstances, but the corridor through the Caucasus is the next best alternative.

Iran is not going to be an alternative for pipeline movement for some time to come. So, I am not aware that there is any disagreement or any problems between Iran and Russia on that matter.

Mr. NISSMAN. May I add to that, that Turkmenistan is building a gas pipeline through Iran to Armenia, as part of the Turkmen-Iranian-Armenian gas agreement, which was signed recently.

This kind of agreement, once again, can only be done with the tacit approval of Moscow. I mean it is an example of a joint, in fact I believe even it has Russian financing, in addition to its own.

Mr. ARMITAGE. For different reasons, I believe the Russians and the Iranians share a common objective in pressuring Azerbaijan, from the Iranian point of view, as I understand it.

They are quite unhappy with Azerbaijan's search for a relationship with the United States and with Israel—the two key enemies of Iran, for different reasons having to do with the reconsolidation of empire.

I believe the Russians are equally intent on pressuring Azerbaijan. So, I think that would lead you to believe that they would have common approaches to more items than just the political situation in Baku.

Mr. EBEL. If I might comment on the remarks that Dr. Nissman made.

Chairman GILMAN. Yes.

Mr. EBEL. There is a pipeline under construction from Turkmenistan into Iran. They would very much like to extend it beyond into western Europe, but I find it very difficult to believe that financing could be found for that pipeline, given present U.S. policy towards Iran.

Chairman GILMAN. Does our nation oppose a long lead pipeline for the export of oil from Azerbaijan that would pass through Russia, given that Russia already controls much of the pipeline traffic?

Mr. EBEL. U.S. administration has been supportive of the two-pipeline policy which I mentioned in my remarks and which came up this morning. One pipeline through Chechnya and one pipeline through Georgia.

That will take care of the early oil. That will take care of the next 7 to 8 years, but what about the time beyond that when production gradually increases to a peak of about 700,000 barrels per day?

You will need another major pipeline. The U.S. administration supports that pipeline probably through Georgia, through the Turkish port of Ceyhan.

But if you are supportive of a two-pipeline policy for early oil, should you not also be supportive of a two-pipe policy for later oil and if so, where does that second pipeline go? I do not think there is an answer to that question yet.

Chairman GILMAN. Anyone else want to comment on that?

Would a pipeline through Turkey be beneficial to that country's economy, particularly in its more depressed eastern region?

Mr. EBEL. A pipeline through any transit country is beneficial. Not only do you earn hard currency from transit fees, it becomes in a way a steel highway of influence. Your influence.

It gives you a point of leverage over those people who are putting the oil into the pipeline. So that is why there is such a mad scramble for everybody who wants to be a transit country today, whether it is Russia, Armenia, Azerbaijan or Turkey. They all recognize the benefits, political and economic to be derived.

Chairman GILMAN. Has our government been talking about providing any financial assistance, if necessary, to help Georgia build its pipeline for export of early oil from Azerbaijan?

Mr. EBEL. It is my understanding that the early oil pipeline from Baku to the Georgian port of Supsa will either be funded by the consortium or that they will secure by funding themselves from international lending institutions, such as the European Bank for Reconstruction and Development.

Chairman GILMAN. Have we explored inviting the leaders of Armenia, Azerbaijan, Georgia and Turkey to a closed-door session to try to resolve the conflicts in that region and try to improve bilateral relations?

Mr. ARMITAGE. The question was should we or have we, sir?

Chairman GILMAN. Have we and should we.

Mr. ARMITAGE. Well, we should and I do not know if we have. I suspect that that cow is out of the barn, given the involvement of the Minsk Group in this.

I do not think that since we have the Minsk Group, that many people thought about it. My view is that we should and it is what I was arguing for in my opening statement. We need a very much more robust U.S. diplomatic initiative aimed at ending the suffering on both sides of that divide.

Chairman GILMAN. As far as you know we have not; is that correct?

Mr. ARMITAGE. As far as I know we have not, sir.

Chairman GILMAN. No other comments?

I note that Turkey seems to have moved away from its initial position that the Karabakh conflict be settled first, now stating that it will accept an agreement on the principles underlying a settlement to that conflict, but not necessarily settlement itself in order to reopen its border with Armenia. Is that an accurate reflection?

Mr. NISSMAN. Yes.

Chairman GILMAN. Are there any comments you want to make about that?

Mr. ARMITAGE. I think their move is reflective of their balancing act. They are trying not to antagonize what are already becoming

ever more difficult relationships with the United States, Europe, and, to some extent, Russia.

Chairman GILMAN. Any other comments, panelists?

What is the extent of Armenia's trade with Iran right now?

Mr. NISSMAN. Iran's trade with Armenia is very large. In fact, Iran's trade with all three Transcaucasus republics is quite large. They have been very active right from the very beginning of independence.

Of course at the same time Armenia has been buying weapons from Iran. This has been a bone of contention and also food stuffs, but I do not know what percentage of its total import this amounts to.

Chairman GILMAN. What has been our position on the Armenian-Iran commerce?

Mr. NISSMAN. We have not really had much of a position.

Chairman GILMAN. Would any present U.S. sanctions on Iran or any of those recently considered by the Congress in Iran-Libya sanctions legislation affect Armenian business relations with Iran?

Mr. NISSMAN. It is quite possible, but I am not sure. I do not know the details of these agreements.

Chairman GILMAN. Mr. Armitage, any comment?

Mr. ARMITAGE. I think that would be a difficult thing to get to the bottom of. I am not sure who would be financing these arrangements from the diaspora community or which operations in Armenia may have cross-border trade with Iran.

Mr. NISSMAN. Yes.

Chairman GILMAN. Does Israel enjoy good bilateral relations with all three of the Caucasus states, including Azerbaijan?

Mr. NISSMAN. Israel and Azerbaijan have had a special relationship. Azerbaijanis, for example, who emigrated to Israel, Azerbaijani Jews were voted dual citizenship last year or the year before by Azerbaijan and they have been very active in the business community in Baku, which also finds its counterpart in Israel.

Chairman GILMAN. Any other comments?

Is our current complement of our diplomatic personnel in the Caucasus countries sufficient to handle the increasingly complex issues involving political, economic transformations that are occurring there and the number of varied ethnic conflicts, Russian-Iranian role in the region, important questions surrounding energy development?

Are we sufficiently manned in our posts out there?

Mr. ARMITAGE. I think we are "manned" and "women'd" sufficiently in our posts out there. I would say that our diplomatic cadre in all three countries are top flight. I think the problem is that we are not sufficiently manned back here to support them in a proper way.

I do not see much energy, much muscular diplomacy, being put forward to try to resolve this huge ethnic conflict. That is the problem.

Mr. EBEL. As long as we have a very good working relationship between the various embassies and the U.S. companies working in the area, we will be okay with regard to energy information.

Chairman GILMAN. Is our nation willing to assume a position as a co-chair of the OSCE Minsk process? Would that be an advantage

or a disadvantage to bringing more U.S. influence to bear in support of the solution to the conflict? Are we willing to assume the chair? Does anyone know about that?

Mr. ARMITAGE. Co-chair. I do not know if we are or not. I will offer a personal view that, having been trained in the military, the first general order is to take charge of all government property in sight.

It seems to me if we are a superpower then we ought to try to grab a chair or co-chair and try to bend things to our will. That may not be in favor these days in Washington, but that is my view.

Chairman GILMAN. Comments from other panelists?

Is there credence to suspicions among Azerbaijanis that the elements of the Russian Government plan to use former Azerbaijani President Ayaz Mutalibov, who resides in Moscow, in an endeavor to overthrow the government of Azerbaijan in a Russian-backed coup? Any reports with regard to that?

Mr. NISSMAN. There are constant reports on that. Some of these reports obviously have a base in paranoia, some have a base in reality, but as Mutalibov gets older, the circles in Moscow who would try to use him for those ends will have to find another boy.

Aliyev has been very effective and very strong in dealing with the Mutalibov supporters in Azerbaijan.

Chairman GILMAN. Why, in your view, did Armenian President Ter-Petrossian, suspend the activities of the Dashnak party in Armenia prior to the July, 1995 parliamentary elections? Any thoughts about that? Any comment?

Mr. ARMITAGE. Here goes. I am not sure I can comment completely knowledgeably. I have only had two in-person conversations with President Ter-Petrossian and they were quite awhile ago. Certainly before the time you mentioned.

There is a great difference of opinion in the body politic in the area of what to do in Nagorno-Karabakh: whether it ought to be an autonomous region, whether it ought to be an independent region or whether it ought to be part of Armenia. I think some hold these views very strongly.

I suspect at heart this is at the bottom of Ter-Petrossian's decision, but I do not know for sure, Mr. Chairman.

Chairman GILMAN. Any other comments?

Mr. NISSMAN. Yes. I might add to that, that the republic of Nagorno-Karabakh, who is basically inspired through a Dashnak effort and this alone, this hard line with regard to Karabakh is one of the factors that alienated Ter-Petrossian from the Dashnak's, which he did despite the fact that they probably remain the most powerful group in the diaspora, financially as well as in membership.

Chairman GILMAN. Does the government of Azerbaijan engage in any direct talks with the ethnic Armenian leadership in the region of Nagorno-Karabakh and should we be encouraging such direct talks if they do not already exist?

Mr. NISSMAN. No. They conduct no such talks, because by conducting such talks in their view would be tantamount to recognizing the existence of the republic of Nagorno-Karabakh.

Chairman GILMAN. Should we consider talks?

Mr. NISSMAN. No. I think that the U.S. position has been one of territorial integrity and this would erode that position.

Chairman GILMAN. Any other comments by any panelist?

What evidence, if any, has Turkey provided that Turkey has provided military supplies or support to the government of Azerbaijan in the conflict over Karabakh?

Mr. ARMITAGE. I believe my knowledge of this comes from Turkish media. I cannot comment on certain intelligence matters, but the Turkish media has reported retired offices being secunded, if that is the proper term. It probably is not. I believe a certain amount of military material is being made available.

Chairman GILMAN. They have acknowledged that.

Mr. ARMITAGE. This is a report made by the Turkish media and not to say that is the same thing as the government acknowledging it.

Mr. NISSMAN. Well, Turkey is also training Azeri officers who have been in the past very limited in their military training. Turkey is one of the countries that is providing this training. That is in Turkey, I might add.

Chairman GILMAN. Do other countries provide any outside military support to the parties to the conflict over Karabakh?

Mr. NISSMAN. Well, we know that many of the weapons and material used come from Russian arms depots, some of which were turned over at the time of independence, somewhat taken, at the time that the war broke out and between the periods of 1988 and 1992. A lot was seized in that regard.

There is a great deal of weapons smuggling going on. It is suspected that your primary culprits in this are Russia and Iran, but the hard proof, bills of lading, this kind of thing and papers, this I have never seen.

Chairman GILMAN. Are any U.S. weaponry involved in any of the transfers?

Mr. NISSMAN. I do not know. I do not think so.

Chairman GILMAN. Do the positions of the Armenian Government and of the ethnic Armenian leadership in the region of Nagorno-Karabakh in the Azerbaijan differ on how to arrive at a resolution to the Karabakh conflict?

Mr. NISSMAN. Well, the leadership of Karabakh of course feels that this highest degree of autonomy which had in fact been mentioned by Heydar Aliyev as a deal, but they would still be part of Azerbaijan.

There are many factions within Karabakh itself that are unsatisfied with that. On the other hand, in Armenia giving Karabakh this so-called highest degree of autonomy, but remaining within Azerbaijan would probably be a satisfactory solution, at least to the Armenian party of Ter-Petrossian. To the Dashnaks it would not.

You asked about the Dashnaks before. That is another bone of contention between Ter-Petrossian and the Dashnak movement.

Chairman GILMAN. Is Russia playing any role in helping to resolve the conflict over Nagorno-Karabakh?

Mr. NISSMAN. Well, they are members of the Minsk Group. They have offered their services as intermediaries. As a member of the

Minsk Group of course you might say they are playing a major role along with the other members of the Minsk Group.

Chairman GILMAN. Gentlemen, just one last question. What are your recommendations about what U.S. policy should be in the Caucasus region?

Mr. ARMITAGE. Mr. Chairman, if I may, in the first instance with the convening of a new Congress, I would strongly urge several things.

First, that the Congress pressure the Administration, whatever administration is in power, to be very, very active. The Administration must settle this dispute now and not let it drag on for decades. Number one.

Number two, I think the Congress, at the beginning of a new session, should really look carefully at what is in the long-term interest of the United States and of those who live in the region.

In my view, that means taking a real look at Section 907 and any other restrictive legislation that inhibits our ability to do good, common sense political and economic business with Azerbaijan.

In my view, this in no way in my view conflicts with our ability to have a congenial relationship with Armenia. As a matter of fact, it seems to me from past discussions in the region it is not all that uncomfortable to President Ter-Petrossian, but I will make my own remarks and he can make his own.

I think those two actions by a new Congress to encourage the Administration to be much more active are the single two biggest things you can do.

Chairman GILMAN. Thank you, Ambassador Armitage.

Dr. Nissman, what is your recommendation?

Mr. NISSMAN. Well, I would concur with Ambassador Armitage. Basically I think we need a stronger presence here for this region and its problems. There we are well represented, but it is here that is the problem.

There is a tremendous vacuum of information among our own policy makers. Those responsible for looking at tomorrow instead of today. I think we have major global energy interests there.

I think that to leave the area as we are doing to Russia and to Iran to toy with is potentially very dangerous to the interests of the United States and to the west in general. I think also it is dangerous to Turkey.

Chairman GILMAN. When you say here, I assume you are referring to the State Department.

Mr. NISSMAN. Well, I mean in Washington in general. I do not really care which department it is in.

Chairman GILMAN. Mr. Ebel.

Mr. EBEL. Since I view the Caucasus against the background of energy, I have to say that the present administration has been very supportive of the U.S. companies trying to do business in the area, but that is in large part because corporate and government interests presently coincide.

I think we have to prepare ourselves for the day when these interests may no longer coincide. Second, there is my concern that once the oil-derived revenue begins to flow, the time of troubles will arrive.

Today these are easy days compared to what lies ahead. I would ask myself the question, are we going to have another Norway on our hands? Are we going to have another Nigeria on our hands? I think we need to think about this long and hard.

Chairman GILMAN. Any other comments that the panelists would like to make with regard to U.S. policy?

Well, again, I want to thank our panelists for taking the time to be with us and for your statements.

Our committee stands adjourned.

[The prepared statement of Representative Smith appears in the appendix.]

[Whereupon, at 2:50 p.m., the committee was adjourned subject to the call of the Chair.]

APPENDIX

July 30, 1996

"UNITED STATES POLICY TOWARD THE CAUCASUS"

Statement by John E. Herbst
Deputy Coordinator for the Newly Independent States
Before the House International Relationas Committee

INTRODUCTION: THE U.S. AND THE NIS

I would like to offer my thanks to Chairman Gilman and the members of the committee for the opportunity to discuss with you our policy toward the Caucasus. We value bipartisanship in developing and implementing policy toward the Caucasus and the other Newly Independent States. I hope to enhance this today.

America was confronted with a major challenge and opportunity less than five years ago, when the Soviet Union rapidly disentegrated into twelve Newly Independent States (NIS). For over fifty years, the greatest threat to American security came from the territory of the Soviet Union. Our task was and is to ensure that such a threat would never again come from that quarter.

Part of this challenge, of course, concerned our policy toward Russia. Ambassador-at-large Collins has testified on that subject extensively. But an equally important part of this challenge concerned our overall policy toward the Newly Independent States. How could we craft a policy which was both realistic, responsive to the needs of these states, and yet firmly grounded in our own national interests?

A number of clear priorities quickly emerged, not only for the Caucasus region, but for the entire NIS. We wanted to support the independence, territorial integrity and sovereignty of the NIS, and encourage their rapid progress toward becoming stable, secure and prosperous members of the world community. That would be the most effective way to ensure that these countries become our partners and friends. With this in mind, we developed five major principles governing American relations with these states:

-- Vigorous support for the efforts of the NIS to democratize, develop vibrant market economies and pursue political reform, including respect for human rights.

-- Encouragement of their rapid integration into international political and economic institutions, as well as their active participation in emerging European security structures.

-- Promotion of stable, cooperative relations between the NIS, based upon established international norms, and the early resolution of conflict situations with international mediation.

-- Assistance in these states' effort to limit and reduce weapons of mass destruction and to ensure proper handling of their constituent components -- arguably the most urgent national security task of the post-Cold War world.

-- Advancement of American business interests throughout the former Soviet Union.

It is within these fundamental principles that we have pursued good bilateral relations with Armenia, Azerbaijan and Georgia since 1991. We established diplomatic missions in these three states in the first half of 1992; at present all three Embassies are busy pursuing the broad policy objectives we have set for this important region.

Our interaction with Armenia, Azerbaijan and Georgia has been intensive and at high, indeed the highest, levels. President Clinton and Vice President Gore have met multiple times with Presidents Aliy, Shevardnadze and Ter-Petrossian. Under Secretary of State Lynn Davis visited all three Caucasus capitals two weeks ago to discuss cooperation in the security field and the Conventional Forces in Europe (CFE) Treaty. Deputy Secretary of State Talbott and Deputy National Security Advisor Berger went to Baku and Yerevan in March to advance a settlement to the conflict in Nagorno-Karabakh. Ambassadors Collins, Morningstar and Presel have made frequent visits to the region.

THE CAUCASUS: AN OVERVIEW

By way of brief background, the geo-politically vital Caucasus region is located at the crossroads between Europe and Asia. With a rich cultural and political history dating back over three thousand years, the 17 million people of this mountainous region possess a clear sense of their historical roots which has proven invaluable in their current nation-building efforts. This was particularly important following seventy years of Soviet domination and another century before that during which imperial Russia exercised the dominant influence. Armenia and Georgia were among the first states to adopt Christianity as their national religion, in the first centuries of the modern era. Azerbaijan also has a deep heritage of Islamic culture. In keeping with a rich educational tradition, all three countries have produced luminaries in the artistic, cultural and educational fields, well out of proportion to their populations.

Through the diligence of its people and the natural bounties of the region, the Caucasus has long been a center of economic vibrancy and prosperity. The region now enjoys promising potential both as a Eurasian landbridge for trade and transit and as the source of major energy reserves in the Caspian basin. These reserves are estimated to rival those of the North Sea or Kuwait in size, and have already attracted significant interest from major global oil companies; as of this spring, nine U.S. oil firms had established a presence in Baku alone.

The Caucasus' rich economic potential and crucial geographic location has historically attracted the attention of her larger neighbors, in particular the Russians, the Iranians and the Turks. The past has also taught a painful lesson to the region. Outside powers have repeatedly exploited divisions and instability within the Caucasus to further their imperialist ambitions.

Today there are new rules in play. The states of the Caucasus have the same rights to independence and sovereignty as other members of the UN, the OSCE and the international community generally. It is U.S. policy to promote these rights and discourage any outside attempts to encroach upon the independence of the Caucasus states themselves. We steadfastly oppose the concept of "spheres of influence" in this region. Nor do we want the geopolitics of the Caucasus to lead to any resumption of the zero-sum calculations of the "Great Game" of the 19th century.

PROMOTING ECONOMIC AND POLITICAL REFORM

Perhaps the most fundamental task of the Caucasus states, indeed of all the NIS, has been replacement of the failed Soviet economic and political system. The emergence of vibrant, progressive democracies is the surest way to guarantee the independence of the region and its fruitful integration with the international community.

Toward this end, the United States has lent moral and material support to the gigantic task of reform in the NIS. Since 1992, we have contributed over 1.1 billion dollars in humanitarian and developmental assistance to the Caucasus. Overall, I think the region has made significant progress over the past four and a half years, though much more remains to be done. We intend to continue our active engagement in this process.

ARMENIA: THE ECONOMY

The Armenian economy had to overcome two obstacles as it confronted the challenge of transition to free market principles. First, like the rest of the USSR, all economic indicators plunged steadily in the first years of independence. This drop was exacerbated by the effects of the on-going conflict in Nagorno-Karabakh, including the impact of economic blockades imposed by both Azerbaijan and Turkey. Nonetheless, assisted by the ceasefire in effect in Nagorno-Karabakh since May, 1994, Armenia has made great strides here. Its primary objectives have included creation of a legal, regulatory and policy framework for economic growth in energy, agriculture, housing and other sectors; promotion of fiscal reform; and development of a competitive and efficient private financial sector.

Working with international financial institutions like the IMF and the World Bank, the U.S. has been at the forefront of efforts to stimulate progress in these areas. As part of the program agreed to with the IMF, Armenia has increased its revenue collection, liberalized prices, eliminated exchange and trade restrictions and speeded up privatization. The government has also significantly lowered import and export taxes and made considerable progress toward WTO accession.

Armenia might well be the first NIS to enter this organization, with accession possible as early as spring, 1997. Overall, these reform programs have resulted in the country registering strong economic growth in 1995 and continuing into this year.

U.S. assistance has played a central role in this process, and also in addressing the pressing humanitarian needs of a war-weary country in transition. Over $600 million dollars in American assistance has been provided to Armenia since independence, with humanitarian assistance accounting for roughly 85 percent of this total. On a per capita basis, Armenia has received more aid than any of the other NIS; indeed worldwide, only Israel received more per capita assistance from the U.S. in FY 1996.

In 1995 alone, our aid included 138,000 metric tons of wheat, 25,000 tons of kerosene and 81,000 tons of mazout (low-grade fuel oil), the latter especially crucial during the bitterly cold winters. Now, with the Armenian economy demonstrating the wisdom of its staunchly pro-reform policies, we are shifting increasingly toward developmental aid in the areas listed above.

ARMENIA: POLITICAL REFORM

Political reform has lagged behind economic reform in Armenia. Last July's parliamentary elections and Constitutional referendum were marred by polling deficiencies and problems with the Central Electoral Commission. Some opposition newspapers were shut down in early 1995 and in December, 1994 the Dashnak party banned. Human rights performance has also been uneven.

In the past few months, however, there have been welcome changes in the situation there. In May a district court allowed an opposition newspaper to reopen, for the first time overturning an earlier decision by the Ministry of Justice. The National Assembly passed a new electoral law which addresses many of the shortcomings in the old law. We are hopeful that this September's Presidential elections will be free and fair, marking a significant step toward pluralistic democracy. Energetic and well-designed U.S. assistance programs for democracy and good governance have played a major role in promoting these favorable trends.

AZERBAIJAN: THE ECONOMY

Azerbaijan too has suffered from the collapse of the old Soviet state economic system, as well from the prolonged tragedy of the Nagrono-Karabakh conflict. Though rich in potential, particularly given the vast oil and gas reserves in the Caspian basin, Azerbaijan's economy has declined steadily since the late 1980's. The key to its transformation both in the manufacturing sector and in agriculture is privatization. While some steps toward privatization of the agricultural sector have taken place, it remains dominated by large state and cooperative farms. Private businesses have begun to emerge, particularly in the retail and service sectors.

The government has encouraged foreign participation in the privatization program, but steps to target some 8000 small and medium sized businesses have progressed slowly.

Baku has made dramatic progress over the past year on the financial stabilization front. Working closely with the IMF, Azerbaijan has tightened monetary policy and enacted a restrictive budget for 1995. It remained in compliance with the IMF Structural Transformation Facility (STF) loan and standby agreements, resulting in a significant decline of consumer price inflation. But overall, more needs to be done for Azerbaijan to break out of its current economic woes.

AZERBAIJAN: CASPIAN OIL

Azerbaijan has welcomed foreign participation in development of its vast oil reserves. There is major potential for U.S. firms in the process; we have already gotten involved in two offshore development projects, and nine major U.S. oil companies now are represented in Baku. Planning is underway to send the initial oil from the Caspian through both Russia and Georgia. We envision multiple pipeline routes, including a line through Turkey, as necessary before the end of the decade to develop long-term Caspian oil. As always, the final word in the development of these fields lies with those willing to invest in them. But we hope that once peace is established between Azerbaijan and Armenia, further opportunities for regional cooperation will emerge.

As Caspian oil development quickens, it is essential that the littoral states work out their positions regarding the demarcation of the Caspian Sea. We continue to encourage the five littoral states (Russia, Kazakstan, Turkmenistan, Iran and Azerbaijan) to design a legal regime incorporating principles which will foster international investment in offshore oil resources -- in particular, establishment of clear ownership rights through division of the seabed, and rights to transfer oil and gas across and under the sea, with proper environmental safeguards.

AZERBAIJAN: POLITICAL REFORM

Political reform in Azerbaijan has also moved at a slow pace, including respect for human rights. Azerbaijan held its first post-independence parliamentary elections last fall and adopted a new constitution. While we welcome these steps toward democratization, the fall elections were seriously flawed by multiple voting, widespread instances of official intimidation and misconduct, and chaotic, nontransparent tabulation procedures. As in other parts of the NIS, in Azerbaijan old ways die hard and much work remains before old thinking is fully overcome. This is one of the areas where our assistance can play a major role in influencing Azerbaijan's development.

AZERBAIJAN AND 907

Unfortunately, our ability to encourage Azerbaijan's democratic and economic development has been sharply limited since 1992 by section 907 of the FREEDOM Support Act. This legislation has limited our aid to Azerbaijan since independence to $80 million, this in a country which has 780,000 refugees and internally displaced people. By way of contrast, we have provided 612 million dollars in assistance to Armenia and 420 million dollars to Georgia. Not surprisingly, 907's limitations have extracted a sharp toll in American ability to influence Azerbaijan's progress in ways we have already seen yielding tangible results in neighboring Georgia and Armenia, as well as other NIS. Likewise, 907 has hampered our ability to address Azerbaijan's pressing humanitarian needs.

Measures such as the Porter Amendment, though well-intentioned, would actually exacerbate the problem by seeking to create artificial ratios for assistance to the Nagorno-Karabakh region of Azerbaijan and injecting political issues relating to the status of the disputed region. That, as our June 12 Statement made clear, is why we oppose this proposed legislation.

GEORGIA: THE ECONOMY

Georgia too has been wracked by civil war and internal instability since gaining its independence in 1991. Economic recovery has been further hampered by severely deteriorated infrastructure and resistance to reform on the part of some corrupt factions. Nonetheless Georgia under President Shevardnadze has made dramatic progress in the past eighteen months. Following the IMF's framework, Tbilisi has slashed inflation, introduced a new, stable currency, prepared to eventual membership in the WTO and passed legislation to push ahead reform in the banking, land and tax sectors.

The U.S. has supported these reforms through both humanitarian and technical assistance, which has totaled over 400 million dollars since 1992. As Georgia's economy went into sharp decline just after independence, our humanitarian assistance was able to address pressing needs for wheat and fuel. In the technical area, which we are shifting greater emphasis to all the time, we seek to encourage and reinforce reform initiatives.

We have also begun to attach conditions to the provision of such assistance, particularly to encourage breakup and privatization of inefficient state monopolies, including the state energy monopoly and state bread corporation.

The Georgian government actively seeks increased foreign investment. The agreements signed this March in Tbilisi between the Azerbaijan International Operating Company (AIOC) and its Georgian counterpart, the GIOC, and with the Georgian government laid the foundation for the development of the western pipeline for Caspian oil; these agreements are already producing results.

The first shipments of materials destined for offshore work in Azerbaijan have already moved across Georgia from the Black Sea to Baku. President Shevardnadze has made clear his intention to use the pipeline as an opportunity to upgrade Georgia's dilapidated rail and road systems, allowing them to become part of a major Eurasian trade network. America has provided critical technical assistance on pipeline and energy-related reforms. We will continue to work with the Georgian government as it establishes its reputation as a significant player and partner in this area.

GEORGIA: POLITICAL REFORM

President Shevardnadze's political reform agenda is also impressive. Following Presidential and parliamentary elections last November described by credible outside observers as the freest and fairest in the Caucasus or Central Asia, Shevardnadze is working with Georgia's reformist parliament to crack down on crime and corruption, establish higher human rights standards and lay down the legal framework necessary to move ahead on a range of reform initiatives. We are working to target our assistance in support of these policies. An example is the decision to give priority to rule of law assistance for parliamentarians drafting laws designed to give force to the commitments embodied in the new constitution passed in August, 1995. Local elections are planned for 1997, and we will be working with parliamentarians and local officials to ensure they reinforce and strengthen democracy in Georgia.

At the same time, we continue to press Georgia to improve upon its mixed human rights record. While Georgia has an admirable history of tolerance for religious and ethnic minorities, the performance of its law enforcement community, including prison officials, leaves much to be desired. The lack of progress in this area is due largely to the resistance of certain factions to give up authority they enjoyed under the old regime. Since his near brush with assassination last August, Shevardnadze has gone on the offensive against these forces, with considerable success. But more needs to be done. We are working with the parliament and the courts to strengthen alternatives to the old system, and will continue to do so.

INTERNATIONAL INTEGRATION

As with the rest of the NIS, we have seen greater cooperation and integration, both within the Caucasus itself, and with the outside world, as an essential guarantee of the region's long-term stability and security. This is a tough neighborhood, and the three Caucasus states' prospects of survival and prosperity will be greatly enhanced if they can pool their efforts, both economically and politically. Obviously the existence of conflict zones in the Caucasus -- in particularly the Azerbaijani-Armenian faceoff over Nagorno-Karabakh -- places definite limits on what is possible today. But this is the path of the future, and there are certain modest steps which can be done even now.

Participation by all three states in fora where practical approaches to economic cooperation are considered -- for instance in the energy, transport and communications fields -- is one example of things that can be done now. Regular meetings among senior leaders of the three Caucasus states provides another avenue for frank exchanges of views on regional cooperation. The development of bilateral contacts among the three states is also taking place. With the resolution of conflict situations in Abkhazia, South Ossetia and Nagorno-Karabakh -- and we hope that won't be too far off -- these channels will take on greater significance.

Greater participation in multilateral fora will further cement Armenia, Azerbaijan and Georgia's position as new members of the world community. They are already members of the UN, OSCE and NATO's Partnership for Peace (PFP). Under Secretary Davis used her trip to the Caucasus to encourage more intensive participation in PFP.

The Caucasus states also actively participate in economic institutions like IMF and the World Bank, have applied for membership in the Council of Europe and enjoy cooperative relations with the EU. Armenia and Georgia are vigorously pursuing membership in WTO, and Azerbaijan will follow once her economic reforms make this possible. The United States supports and encourages these developments, which we believe will bolster an interlocking web of bilateral relationships to the benefit of the Caucasus region's independence, stability and prosperity.

REGIONAL SECURITY, THE CAUCASUS AND THE NIS

A key precondition to the prosperity and development of the Caucasus is the creation of a stable and secure environment in the region. The United States has pursued a multilayered approach to the problem of promoting security within the Caucasus. As mentioned above, we have encouraged the gradual development of practical regional cooperation among Armenia, Azerbaijan and Georgia. In time, and particularly as regional conflicts are addressed, this can take on a more direct security component.

IRAN, TURKEY AND RUSSIA

We have also encouraged these states to pursue prudent strategies for cooperation with their immediate neighbors, though warning of the danger of close ties with an Iran which continues to promote terrorism and flout other internationally recognized standards of behavior. We have taken a particularly strong line against the development of close military ties between the states of the region and Iran; this policy has met with understanding by all three Caucasus states. During Under Secretary cf State Lynn Davis' recent trip to the region, we had useful exchanges with all three countries' leaders on ties with their neighbors. We came away with several key impressions.

First, all three Caucasus states are determined to develop good relations with all their neighbors. Closer relations with Turkey are a key component in this strategy. The U.S. actively encourages normalization of Armenian-Turkish ties, while recognizing that the pace of this trend will remain somewhat limited so long as there is no settlement of the Nagorno-Karabakh conflict. We also support the close bilateral ties which are developing between Ankara and both Georgia and Azerbaijan.

I would be misleading if I did not say here that the Caucasus states have concerns about their northern neighbor. This is particularly true of Azerbaijan and Georgia. All three Caucasus states were pleased with the results of the Russian elections. Nonetheless, Georgia is particularly concerned that Moscow assist more in the search for peace in Abkhazia, rightly believing that the Russians have considerable influence with "leaders" in that breakaway region of the country. Likewise, Azerbaijan would like to see Russia play a positive role in international efforts aimed at achieving a balanced settlement of the Nagorno-Karabakh conflict, but worries about the Armenian-Russian military cooperation, particularly as it relates to Karabakh.

THE CAUCASUS AND CFE

The maintenance of the CFE Treaty makes an important contribution to security and stability in the Caucasus. Under the CFE flank deal provisionally agreed to in Vienna this spring by all thirty member-states of the CFE Treaty, including the three Caucasus states, Russia must reduce the overall amount of treat-limited equipment (tanks, artillery and armored combat vehicles) in the current flank zone by 800 pieces by May 31, 1999. Russia has also committed not to increase the amount of equipment it has in this area between now and 1999, when the agreement takes effect.

Georgia and Azerbaijan remain concerned about the Russian angle as they consider formal agreement to the flank package. We have made clear our view that this is a good deal for them on its own merits, though clearly CFE cannot solve all of their security concerns. In particular, CFE is not an avenue to solve either Abkhazia or Nagorno-Karabakh. We have also made clear to the Caucasus states -- and to Russia -- that Moscow's right to negotiate temporary deployments of treaty-limited equipment or Tashkent quota reallocations with other NIS can be done only with the voluntary consent of the involved parties, and must fully respect the sovereignty of all sides. To ensure respect for these principles, the United States has offered to serve as intermediary or facilitator in any discussions between Russia and the Caucasus states on such equipment transfers.

THE CAUCASUS AND CIS

A word about the Commonwealth of Independent States (CIS). All three Caucasus states are members of the CIS and regularly participate in high level meetings where a whole range of issues affecting the former USSR are discussed. Such gatherings afford opportunities for the various non-Russian NIS leaders to meet informally.

That said, there is widespread concern within the NIS concerning the pace and direction of possible CIS integration driven out of Moscow. Some nostalgic and conservative elements in Russia have seen this as a vehicle for reestablishment of the former Soviet Union. President Yeltsin too has promoted integration, but has always stressed that the process should be voluntary and gradual. The debate in Russia about relations with their neighbors played a role in the recent elections, and will continue to be a emotional domestic issue for some time to come.

The U.S. position on efforts to deepen CIS integration has consistently been that this process should be voluntary, transparent and should not limit the ability of the individual NIS to broaden their interaction with the world community as a whole. We have made these views clear to Moscow at the highest levels, while continuing an open dialogue with all our partners in the former Soviet Union on the role of the CIS.

REGIONAL CONFLICT RESOLUTION IN THE CASCASUS

A key challenge to the establishment of a stable and secure Caucasus has been the persistence of tragic separatist conflicts in South Ossetia, Abkhazia and Nagorno-Karabakh. The achievement, with international support, of balanced and enduring political settlements to these conflicts remains a top U.S. objective. Ambassador Presel will deal in greater detail with this problem. Therefore here I will deal only with the main aspects of these regional conflicts.

First, the roots of these ethnic disputes long predated the formation of the USSR, but during the seventy years of Soviet rule expression of nationalist sentiment was effectively surpressed. The breakdown of the Soviet system in the late eighties allowed these historic disputes to reemerge. Thus Abkhaz and Ossetian separatism and ethnic tensions between Azeris and Armenians over Nagorno-Karabakh became even more intense just as the USSR was collapsing in upon itself.

Tragically, the NIS were incapable of reining in these tensions, which exploded in renewed violence in the early nineties, fueled in some instances by Russian elements . The fighting in Abkhazia and Nagorno-Karabakh in 1992-93 was particularly costly both in political and human terms. Fortunately ceasefires, uncertain as they remain in the absence of permanent settlements, are now in place in all three of these Caucasus conflict zones. Furthermore, there are internationally supported peace processes in all three conflicts, involving both the UN and the OSCE.

The United States remains committed to working with the parties and other interested states, including Russia, in the search for lasting peace settlements preserving the territorial integrity of the three Caucasus states while addressing the legitimate security concerns of minority populations. We support the OSCE Minsk Process aimed at resolving the Nagorno-Karabakh conflict, the UN mediation effort in Abkhazia and the OSCE peace process in South Ossetia.

We maintain an active dialogue with Moscow on these conflicts along its southern border, convinced that their early resolution is as much in Russia's interest as it is in the interest of the Caucasus states. For only once peace has been permanently established in this area will the goal of economic and political development within a stable and secure Caucasus region become truly achievable.

WEAPONS OF MASS DESTRUCTION

Our principled strategy within the NIS of seeking to limit and reduce weapons of mass destruction and ensure proper handling of their constitutent components following the breakup of the Soviet Union was primarily directed at the nuclear weapons states of Russia, Kazakhstan, Belarus and Ukraine. That said, we have worked with the Caucasus states to ensure that they were alert to the danger of nuclear materials smuggling through their territory, particularly given their proximity to Iran. We have also urged efforts by these states to minimize the danger of experts in these areas being recruited by the Iranians or other rogue states to work on their weapons acquisition projects.

Finally, we opposed the recommissioning by Armenia of the nuclear power plant at Medzamor -- due to design shortcomings and its location in a seismically active zone. Our dialogue with Yerevan contributed to the Armenian decision not to operate the plant beyond 2004. With this decision, we agreed to provide modest assistance to the Armenians to improve the safety mechanisms associated with the plant operation, working closely with the French, Germans and other allies.

PROMOTING U.S. BUSINESS

The vigorous promotion of U.S. business interests is a central tenet of American policy toward all the NIS, including in the three Causasus states. Our three Ambassadors, and their staffs, in Yerevan, Baku and Tbilisi, have made this a top priority. They work closely with resident businessmen both individually and through the American Chamber of Commerce, to understand the business climate and to enhance opportunities for U.S. business interests. This has also been a key goal of high level U.S. visitors to the region. For example, in late May Deputy Secretary of Energy Curtis visited Baku to attend the annual Oil and Gas Show, then went on to Tbilisi to discuss American energy interests with top Georgian officials. We recently negotiated Bilateral Investment Treaties with Georgia and Armenia and are pursuing this same goal with Azerbaijan.

As my description of the economies of the three Caucasus countries above noted, we see great potential for U.S. business interests in this region. Since 1992 two-way trade between the U.S. and Georgia, Armenia and Azerbaijan topped 600 million dollars, mostly in American exports to these emerging states. But much more can be done. The development and export of Caspian oil and gas provides the single biggest avenue for our interests, but there are multiple other trade and investment opportunities in all three countries.

Continued progress by the Caucasus states toward economic and political reform and resolution of regional conflicts will broaden these opportunities further. We remain dedicated both to promoting current prospects and improving the climate for future ones. The State Department works closely with the Commerce Department and other relevant government agencies in this effort. We are also in frequent contact with American business representatives in support of this.

CONCLUSION

American engagement in the Caucasus region is robust and growing. It is an integral, yet discrete part of our overall policy toward the NIS. Integral, because there are certain basic interests we share in all the NIS. Discrete, because the Caucasus is a separate, geopolitically coherent part of the NIS, with its own impressive history, challenging present and promising future. Our task, with our partners in each of the three Caucasus states, is to bring that future closer.

THE CAUCASUS CONFLICTS AND THE U.S. STATEMENT

Ambassador Joseph A. Presel,
Special Negotiator for Nagorno-Karabakh
before the House International Relations Committee
July 30, 1996

Mr. Chairman, Members of the Committee, thank you for giving me the opportunity to testify today about the conflicts that still plague the Caucasus region. It is now nearly five years since the collapse of the Soviet Union. The three countries of the Caucasus have established themselves as independent, sovereign nations. With the help of the United States and others, that independence and sovereignty will endure and develop. The persistence of tragic regional conflicts is the greatest threat to their independence and sovereignty, as well as to U.S. interests. That is why these conflicts in a far-away corner of the world are important to us.

We know much more today about the nature of those conflicts than we did five years ago. Then, the Caucasus was a nearly closed book; hidden behind an iron curtain, veiled in Soviet propaganda. Now, we have embassies in Tbilisi, Yerevan and Baku. In 1980, an American scholar studying in Baku was forbidden to leave the city or see any other part of Azerbaijan. Today our scholars, diplomats, members of Congress, journalists, businessmen, relatives and just plain tourists go to every corner of all three republics.

With the perspective of five years we can see clearly that the ethnic conflicts in the Caucasus are primarily an expression of the bottled up nationalism that is unleashed when empires collapse. These same unleashed passions caused World War One at the beginning of the century and the tragedy of the Former Yugoslavia today. We cannot ignore their potential for harm in the collapsed Soviet Empire.

If we include the North Caucasus, which is part of the Russian Federation but with a skein of close ties to the South Caucasus, the region has seen five full-fledged wars, numerous near-conflicts and countless ethnic separatist movements since the collapse of the Soviet Union. My office works directly on three of these, Abkhazia and South Ossetia in Georgia; and Nagorno-Karabakh, which involves both Azerbaijan and Armenia.

Most of this conflict derives from the collapse of the Soviet Empire. Moscow had always kept potential ethnic rivalries down with an iron hand; when Moscow's hand grew rusty the rivalries escaped its grip. The peoples of the Caucasus historically lived mixed in with one another; you often hear that it was Stalin who drew arbitrary boundaries. This isn't true. Armenians and Azeris, for example, lived side by side. It would have been impossible for anyone to draw rational boundaries. For instance, in the 1896 census, 55% of the population of Yerevan District were Muslims.

More importantly, the Soviet Union was a country ruled from Moscow, not local capitals such as Yerevan, Baku or Tbilisi. For example, Robert Kocharyan, the leader of the Nagorno-Karabakh Armenians, told me that in 1923 it didn't matter to the people of Nagorno-Karabakh whether they were part of Azerbaijan or Armenia. After all, these were just two small units in a vast country. And at the time, Yerevan was a village, while Baku was a large, cosmopolitan city whose population included more Armenians than in all of Nagorno-Karabakh. (By the way, as recently as 1990, far more Armenians lived in Baku than in Nagorno-Karabakh.)

Once the Soviet Empire weakened, however, rule devolved to the provinces and the independent states they became. It was one thing to be a minority if everyone was equally oppressed by Soviet rule from Moscow; it was quite another to be a minority in a small republic run by and for its dominant ethnic group.

The result was a number of ethnic separatist movements -- most of which never reached point of conflict. The Nagorno-Karabakh conflict, too, started out small. The tragedy of Nagorno-Karabakh is that the collapse of empire and the ambitions of crowd-baiting politicians allowed it to turn into a full-scale war. The government in Moscow, preoccupied with the collapsing Soviet Union, was unable or unwilling to understand or cope. Four years of attempts by Moscow to control the situation, from 1988 to 1992, resulted only in an increasing cycle of violence, punctuated by anti-Armenian pogroms in Sumgait and Baku in 1988 and 1990, the massacre of civilians in Baku by Soviet troops in 1990, and the massacre of Azerbaijani civilians in the Karabakh town of Khojaly in 1992. In mid-1992 both sides inherited large arsenals from the defunct Soviet army, and a real war had begun in earnest. Since then, Nagorno-Karabakh Armenians have expelled all Azeris from Nagorno-Karabakh and have occupied about 20 percent of Azerbaijan, expelling Azeris from the lands they seized.

The wars in South Ossetia and Abkhazia, too, had their origins in the same mix of ethnic tensions, instability of new states, and the collapse of the Soviet empire. The Georgian warlords who achieved power in the nationalist struggle against the Soviets, and who deposed President Gamsakhurdia in January 1992, did not give up power to Eduard Shevardnadze when he took office in March 1992. Fragmented and unstable, the new government was unable to pursue its campaign against separatists who had been active for some time in Ossetia, and accepted a cease-fire in June which left Russian troops in control with OSCE monitoring.

Defense Minister Kitovani then decided to "solve" Abkhazian demands for independence by military means, touching off a war which ended, in September 1993, with Georgian forces -- and the entire population of ethnic Georgians, once the majority in the region -- driven out of Abkhazia with great loss of life.

Let us look at what these wars have done to the region. First, the human tragedy. Thousands have died in the conflicts. Azerbaijan has the burden of caring for 780,000 refugees and internally displaced people -- 200,000 who were expelled from Armenia between 1988 and 1990, 40,000 who lived in Nagorno-Karabakh, and the rest from ethnically Azeri areas in Azerbaijan now occupied by Nagorno-Karabakh Armenian forces. Roughly 300,000 Armenians who fled Azerbaijan after 1988 now burden the impoverished Armenian economy.

Over 250,000 ethnic Georgians are internally displaced after their expulsion from Abkhazia; another 40,000 people fled Ossetia. Thus over 1.3 million people have been displaced in a region whose total population is around 17 million; hardest hit is Azerbaijan, both in sheer numbers and as a percentage of its population. The Caucasus is a humanitarian disaster of proportions comparable to some that have received more publicity.

Second, the economic tragedy. Prosecuting the wars has diverted scarce resources from the weak economies of all three countries. Even higher are the opportunity costs -- the commercial and industrial development these countries have had to forego, most especially the development they might have achieved by cooperating economically on a region-wide basis.

This is especially true in the area of transportation and communications. We often hear this problem described as one of "blockades." More accurately, it is a series of interlocking trade embargoes. These are crippling to all three countries. The rail lines of the region, built during Czarist and Soviet times, crisscrossed what are now international borders. In 1991 all these lines shut down, seriously reducing access to the outside world of Armenia and parts of Azerbaijan. Each side blamed the other, but what we can say is that it is the conflicts which shut down these lines. Likewise, transportation between Turkey and Armenia remained as it had been under the Soviet Union, one train a week, until the Turks closed the border in April 1993, to protest the Nagorno-Karabakh Armenian seizure of the Azerbaijani province of Kelbacar.

The point I want to make is that it is the conflict that caused the embargoes, not the other way around. Solving the conflicts will help end the disruption of communications and allow these new states to develop economically. The longer the conflicts go without a resolution, the harder it will be for these countries to integrate into the world economy and develop the type of economic independence every viable country needs.

That brings us to the third type of damage these conflicts cause. In addition to the human and economic costs, there are political costs. The U.S. rejects the notion of spheres of influence. We believe that the countries of the Caucasus, like other parts of the former Soviet Union and Central and Eastern Europe, should be outward looking. They should participate in the world market and in international political and security structures. Above all, the countries of the region should cooperate with one another.

The conflicts in the Caucasus, however, prolong the life of 19th century-style "sphere of influence" thinking. They make it harder for the countries to think of themselves as independent. They promote the type of zero-sum thinking which would pit Russia, Turkey, Iran, and other countries, including the U.S., against one another in a new "Great Game" struggle.

Our goals in the Caucasus depend upon resolution of these conflicts. What are they? We want the region to develop as a whole. That takes cooperation. The region is rich in oil and has a large, though backward, industrial base. The development, extraction and transport to market of energy resources can and should be the engine for development of the entire region, with the participation of U.S companies and investment -- if the countries live in peace and cooperation.

The region is bordered by three major powers, one of which, Iran, is a rogue state. The countries of the region can maintain their independence and resist Iranian encroachment -- if they settle their differences and live in peace with one another. The countries of the region should integrate into the world's political and security structures; they are members of the UN and OSCE, and we would like them to participate in other organizations, such as the Partnership for Peace. Right now, the ongoing conflicts make regional exercises difficult. The countries can integrate into the world -- if they can cooperate with one another.

That is why the United States is active in resolving these conflicts. In Nagorno-Karabakh, we play a leading role in the OSCE Minsk Group, which is mediating a solution. A cease-fire was negotiated under Minsk Group auspices in May 1994, which has held, with minor violations, until now. Further progress has been slow. We are pressing Armenia, Azerbaijan and the Nagorno-Karabakh Armenians to make the compromises that will be necessary to forge a permanent peace.

The principal problems to be resolved include the final status of Nagorno-Karabakh, including permanent guarantees for its security; the withdrawal of forces from occupied territory and the return of refugees to their homes; the question of Lachin, the Azerbaijani province through which runs the road between Armenia and Nagorno-Karabakh; and the fate of Shusha and other places inside Nagorno-Karabakh that were historically inhabited by Azeris.

Our efforts are grounded in the Minsk Group and the OSCE. We are working with other Minsk Group members, including Russia, to develop plans to place a peace-keeping force on the ground as soon as possible after as solution is reached. The Minsk Group and the OSCE are crucial for recruiting and organizing a monitor force. Our efforts over the coming months will lead up to the December OSCE Summit, which will have on its agenda what we do next on Nagorno-Karabakh.

In addition to the multilateral peace efforts, we have facilitated and encouraged a confidential direct dialogue between Armenia and Azerbaijan which, we hope, will generate the political will needed for progress. I travel to the region regularly; Ambassador Collins has been there several times; and this March, Deputy Secretary Talbott and Deputy National Security Advisor Berger visited Baku and Yerevan to further the search for a stable peace. Of course, our efforts are not confined to special trips to the region. Our experienced and talented ambassadors are in constant contact with the leaderships of Armenia and Azerbaijan.

The United States has taken a leading role as well in the search for peace in Georgia. Both in Tbilisi and at the UN, our representatives are active in the "Friends of Georgia," an unofficial group of major Western powers and Russia which serves some of the same functions as the Contact Group for Bosnia. Our ambassador in Tbilisi has recently made two trips to Abkhazia, one with other members of the Friends of Georgia and one a U.S.-only visit. Our efforts are devoted to getting the parties to negotiate seriously and realistically; Russian-mediated negotiations under UN sponsorship have to date been unproductive.

U.S. diplomats are serving in the OSCE Mission in Georgia, which monitors the cease-fire in Ossetia; we have four military officers in UNOMIG, the UN force which monitors the cease-fire in Abkhazia and the activities of the CIS Peace-Keeping Force, which is entirely Russian.

Mr. Chairman, there have been persistent questions about the role of Russia in these conflicts, as in the region. The parties, especially the Azerbaijanis and Georgians, accuse Russia of fomenting the conflicts and of destabilizing the region. Both Azerbaijan and Armenia have broadcast televised shots of Russian mercenaries captured fighting for their opponents. Georgia has pointed to the Russian role in the Abkhazia conflict, including Russian military support for the Abkhaz seizure of the town of Sukhumi. Certainly, Russia's role in the conflicts requires comment.

Russia is the direct heir to the Soviet Union and, before that, Czarist Russia -- the colonial power that conquered the region. The process of decolonization of the other great European empires in the 1950's and 1960's was complex and emotional; we should expect nothing different today.

Rather, the fact that the Caucasus is adjacent to Russia, instead of half a world away, makes the process of decolonization even more problematic. For example, there was no "colonial office" in the Soviet Union whose portfolio could be neatly turned over to the Foreign Ministry. If you picked up the phone in KGB headquarters in Baku or Yerevan, it rang in Dzerzhinskiy Square in Moscow. Similar links existed between the central and republican Communist Party apparatuses, the Ministries of Internal Affairs, the militaries, the network of industrial and economic ministries, and so forth.

This distortion in the relationships had a clear effect on the conflicts of the region. For instance, in September 1992, Russia's then Defense Minister Pavel Grachev tried to impose a peace plan on Armenia and Azerbaijan at a meeting in Sochi. He did not inform the Russian Foreign Ministry about the meeting, and when the Foreign Ministry's negotiator for the conflict tried to attend, Grachev barred him from the meeting.

Five years along, this situation is changing. The new state institutions in the Trans-Caucasian republics are slowly developing their own identities and weaning themselves away from Russian institutions. More and more, relations are conducted on a state-to-state basis between ministries, and less through an old-boy network.

This development, too, is reflected in the Russian approach to the conflicts. The Russian Peace-Keeping force in Abkhazia, for example, has stuck to its mandate and not become the lever of expansionsism that some feared. Georgia has been dealing extensively with Russia on the Abkhazia conflict, and has demanded not only that the Peace-Keeping force remain, but also that its mandate be broadened.

It is our hope and our policy to promote the development of friendly, equitable and mutually advantageous relations between the independent states of the Caucasus and the Russian Federation as part of their relations with the wider world.

We believe that good state-to-state relations between the Caucasus and Russia will have a positive effect on the search for peace. It is our policy to consult closely with the Russians on all aspects of our efforts to resolve conflicts in the region, and to press Russia to play a constructive role in the search for peace.

Mr. Chairman, that search will not be over tomorrow. In these conflicts all parties make maximalist demands, and in each conflict the parties are far apart. Progress is slow. We have put in a lot of hard work, but there is plenty more -- slow, patient and unglamorous -- that lies ahead before we will have any progress to report. The Caucasus is a volatile area; the dangers of instability are clear; the rewards of regional cooperation are equally clear. It's worth the effort.

House International Relations Committee
Hearing on
The Caucasus
July 30, 1996

Statement of
Marshall P. Adair
Deputy Assistant Secretary of State
for European & Canadian Affairs

Mr. Chairman, thank you for the opportunity to present our views on Turkey's role in the Caucasus at today's hearing.

Turkey has been an important player in this region for centuries, and will continue to be so for the foreseeable future. We have an important relationship with Turkey, and the interests of our two nations in this region complement each other in many respects. We can and should work together to achieve common goals. In this statement, I will try to address some specific areas in which that can be done, or might be done better.

Turkey's position in the Caucasus

Turkey's geographic location is critical. It has extensive land borders with Georgia, Armenia, Azerbaijan and Iran. It controls access to the Mediterranean and international sea routes; and it has the most modern ports and transportation infrastructure available to the region.

Turkey has strong ethnic ties to this region and Central Asia as well. Many in the region have a common linguistic heritage with Turkey. More that ten percent of Turkey's population can trace their roots to this region, and that makes the Caucasus a subject of Turkey's domestic politics as well as of its foreign policy.

Perhaps most importantly, Turkey's dynamic economy offers opportunities to the nations in the Caucasus, and in turn sees opportunities of its own there. Turkey's population of 60 million is an eager market for resources and products from this region. Turkey can provide access to western markets; it is a source of investment, and of important technology and business acumen for those Caucasian economies struggling to emerge from the shadow of the Soviet economic system.

Turkey's interests in the Caucasus

Turkey's most important interest in the region is a strategic one: to assure that the nations of the Caucasus remain independent, stable and at peace with each other. As such they are less likely to present a threat to Turkey's own borders; they open the way for economic development and exchange; and they reduce the ability of other powers to project influence into the region. Turkey has a long history of competition with Russia in the Caucasus, and remains deeply suspicious of Russian ambitions in the Caucasus.

For this reason it is very much in Turkey's interest to see the Nagorno-Karabakh issue resolved peacefully, and to develop and maintain positive relations with Armenia. In spite of substantial domestic political pressure to become directly involved in the N-K conflict on behalf of Azerbaijan, Turkey has stayed out of the conflict. Until early April, 1993, Turkey permitted humanitarian and other non-military shipments destined for Yerevan to transit Turkish territory in response to grave needs in Armenia. However, following the seizure of Azeri territory by N-K Armenians, the Turkish government was unable to maintain this policy and closed its borders with Armenia to shipments of any kind. Turkey has played an active and constructive role in the Minsk process, and has continually urged Azerbaijan to be more forthcoming in the negotiations. It has also taken steps to improve relations with Armenia. After extensive quiet contacts with Armenia, Turkey reopened the air corridor with Armenia in April, 1995, and it has been in regular use since. Most recently, in March of this year, former Prime Minister Yilmaz offered to reopen the land border with Armenia if the two sides agreed on a statement of principles to guide negotiations.

Similarly, Turkey has an interest in fostering a stable Georgia. Turkey has played a positive role in the UN mission to Georgia. Turkey has worked closely with Georgia to develop trade and investment. Indeed, Turkey is now Georgia s leading trade partner. Turkey also worked hard to promote a western oil route through Georgia from Azerbaijan. We expect that Turkey and Georgia will continue to expand their relationship.

Since the founding of the Turkish Republic in the 1920's, Turkey has been a secular democratic state. With the collapse of the USSR in 1989, Turkey's experience has been an important example for the development of the newly independent states in the Caucasus and Central Asia. Turkey has an interest -- which we share -- in promoting a secular democratic model in this region: it promotes more rapid economic development, political pluralism and helps keep Turkey's other traditional regional competitor, Iran, at bay.

Rapid economic development throughout the Caucasus and Central Asia enhances political stability in the region and provides extensive opportunities for Turkish construction companies, Turkish investors, and important markets for Turkish goods. Today Turkey exports over $200 million a year to the three Caucasian countries. There is potential for substantially more.

Finally, of course, the region has important resources of interest to Turkey and to the West, particularly the energy resources of the Caspian Basin. Turkey needs energy for its own economy. It can also benefit significantly by providing transit for those resources to western markets, and this in turn would benefit the West. Presently, most existing or projected routes go through Russia and end in the Black Sea.

However, there are physical constraints that are likely to prevent oil exports of the magnitude of those expected from this region from being transported out of the Black Sea through the Turkish Straits. For this reason a direct route from the Caspian region to the Mediterranean is very important. Turkey is the only country which can provide such a route.

What more can Turkey do, and how can the U.S. help?

If Turkey is to play both an effective and a constructive role in the region in the years to come it must first address seriously its own political and economic situation. In many respects, Turkey has been an attractive political model for this region, but its more recent political confusion is likely to raise doubts. Turkey will need to accelerate the steps it has been considering in recent years to strengthen its participatory democracy and assure the human rights of all of its citizens. The United States can help by continuing to encourage these efforts as we did actively in 1995 with the cooperative effort to complete the Customs Union between Turkey and the European Union. Continued strong support for the Turkish government's fight against terrorism is also an essential component of bolstering the forces of democratic reform in Turkey.

Second, Turkey needs to put its economic house in order. The current government must stabilize its fiscal and financial policies. It must proceed with the critical reforms needed to reduce the government's role in the economy, lower the budget deficit and decrease the temptation for official corruption. Without these measures it will be extremely difficult for Turkey to contribute to economic development outside its borders. The United States can help first by being firm and consistent in our advice bilaterally and in multilateral fora. We can offer both material assistance and an important example of consistency by continuing to be reliable providers of assistance such as U.S. Economic Support Funds. The U.S. can also help by continuing our active support for Turkey's economic integration with the EU.

Third, while Turkey cannot solve the Nagorno-Karabakh conflict by itself, it can take steps which would significantly improve the environment for a solution. It can continue to encourage reasonable behavior on the part of the Azerbaijani government and efforts to improve relations with Armenia. In these situations it is extremely difficult for any of the parties to take initiatives without immediate or even prior action by others. However, Turkey did take a positive initiative when Prime Minister Yilmaz made his offer in March. We, of course, would like to see Turkey take the initiative of actually opening the land border with Armenia. The United States could set the example for such an initiative by finding ways to resume assistance to Azerbaijan. Additionally, we can help by not introducing new antagonisms such as legislation which sours the environment for any of the parties to act constructively.

On the economic side Turkey can work to strengthen its trade and investment ties with the region, perhaps even by establishing preferential trading relationships with the Caucasus countries. Turkey has worked to make the Black Sea a free trade area, and expand regional trade and investment for three years through the Black Sea Economic Council, which it hosts in Istanbul. Turkey has quickly grown to become an important market for each of the regional countries. While our material resources are limited, the U.S. Eximbank has worked with Turkey and has established a framework to support investments in the region. The potential of this effort has not been realized yet and may need more attention.

However, the single most important contribution which Turkey can make to the region over the next five to ten years would be the maintenance of a western-oriented, free-market economy in a functioning democracy. No other country in the region can do so at present. While other countries can offer similar opportunities, including a viable pipeline which could move Caspian oil out quickly and economically to western markets, only Turkey offers a route based on secure, free-market terms. Such a route need not supplant the line which is projected to run from Baku to Novorosysk. Estimations of reserves suggest that there will be more than enough oil to justify multiple pipelines. Such a southern route, however, would make it possible to return revenues quickly to the producing states both for their development and even for further investments in the region's oil production and transport infrastructure.

In order to make this contribution, Turkey will need to maintain a stable and attractive economic environment which can attract the kind of foreign investment necessary for projects of this magnitude. We will continue to encourage Turkey to cooperate with other regional counties to develop these routes. Good relations with Georgia and with Armenia will also be necessary. Ankara s management of the Turkish Straits has been exemplary, despite public statements by politicians. The United States must maintain clear and active support for commercially viable pipelines with all the parties in the region. We can assure that Eximbank and Opic give serious consideration to the proposals of potential pipeline investors. We are already helping Turkey's management of Bosphorous transit in the International Maritime Organization and are now offering technical advice for traffic control improvement.

Conclusion

Mr. Chairman, there are tremendous opportunities for political and economic development in the Caucasus. We have an important interest in realizing those opportunities. This interest is shared by Turkey. We can and should work together. Thank you.

July 30, 1996

Opening Statement of
Chairman Benjamin A. Gilman on
"United States Interests in the
Caucasus Region."
2172 Rayburn Building

Today the Committee on International Relations will take testimony from official and private witnesses on the Caucasus region and on United States interests in that region. From the regions of Abkhazia and Ossetia in northern Georgia to the Nagorno-Karabakh region in Azerbaijan, ethnic conflict has afflicted --- and continues to afflict --- the region.

For several years, government leaders in Georgia and Azerbaijan have been targets of coups and assassination attempts. In Armenia, tensions between the ruling political party and the largest opposition party led to the government's suspension of that opposition party prior to last year's parliamentary elections. In the midst of this turmoil in the region, Russia has pushed --- and pushed hard --- to obtain military bases in Georgia and Armenia and is continuing to press Azerbaijan to grant it such bases.

Russian border guards now patrol Georgia's and Armenia's borders. As Azerbaijan seeks to find a way to export its expanding oil output to the West without transitting Russia or Iran, those two countries appear to be cooperating to ensure that Azerbaijan does not succeed in that effort. As Azerbaijan is forced to provide increasing influence to Russia and Iran in the development of its Caspian Sea oil resources, one is led to wonder whether Russian arms sales and nuclear reactor sales to Iran are intended to do more than just earn hard currency for Russia.

One is easily led to question whether such Russian business dealings with the radical Islamic regime in Teheran are meant to ensure Russia-Iranian cooperation in manipulating and controlling the countries of the Caucasus region. The vast energy resources of Central Asia --- which may well play a vital role in the next century --- will most likely not find a way to western markets other than through Russia or Iran if such alleged cooperation is successful.

Control of energy pipelines means control of energy resources. The question is: is it in the American interest to see such pipelines go through Russia and Iran --- or is a route out through the Caucasus to the Mediterranean possible? We also need to ask whether it is in the United States interest to see a renewed Russian military presence in the Caucasus. I am sure we can all agree that stability in the Caucasus region is an American interest. I am also certain that many of us see Russian reactor and arms sales to Iran as counter to American interests.

The Committee on International Relations will take some time today to hear from two panels of witnesses on the issue of what exactly are the American interests in the Caucasus region and whether they are being advanced.

Questions from the Herbst/Presel/Adair Testimony
Before the House International Relations Committee
on July 30, 1996

Russian involvement in the Caucasus

Question:

1. Do you believe that Russia is playing a constructive role in fostering economic and political stability in the Caucasus region that preserves the independence and sovereignty of the states of that region?

Answer:

- Since 1992, the Yeltsin government has repeatedly and publicly stated its support for the independence, sovereignty and stability of the three Caucasus countries.

- Moscow has also been actively involved in political negotiations aimed at resolving the on-going conflicts in South Ossetia, Abkhazia and Nagorno-Karabakh, working with the OSCE, the United Nations and other interested parties. The U.S. has supported these efforts.

- Though still significant, economic relations between the Russian Federation and the Caucasus have declined since the breakup of the USSR, in part the result of interrupted lines of communication due to the conflicts in Abkhazia and Chechnya.

- There are on-going debates within Russia society concerning the nature of its relations with the former republics of the Soviet Union. Some circles advocate more forceful measures aimed at closer reintegration of the countries of the former Soviet Union.

- The U.S. has publicly stated that any steps toward integration within the CIS must be voluntary, outward-looking, and must support the independence and territorial integrity of the Newly Independent States.

Question:

2. Do you find any evidence that Russia -- or any Russian military or security agencies -- employed any coercive methods to gain Georgian agreement to the signing of a military bases agreement that allows Russian troops to remain in Georgia for a lengthy period?

Answer:

- In September 1995 in Tbilisi, then Georgian Head of State (currently President) Shevardnadze and Russian Prime Minister Chernomyrdin signed an agreement which, if ratified, would allow Russia to retain four existing military bases on Georgian soil for 25 years.

- According to Georgians who say they are informed about the high-level negotiations that took place, Russian negotiators pressed forcefully for signature of the accord.

- Since then, neither Russia nor Georgia has ratified the agreement, and it has not entered into force. The Russian bases continue to operate.

- The Georgian parliament has indicated that it will not ratify the accord prior to the restoration of Georgian territorial integrity, i.e., the return of Abkhazia and South Ossetia to Georgian control.

- Thus, Georgia is seeking to obtain specific benefits as quid in return for legalizing the Russian military presence on Georgian soil.

Question:

3. What is the need for Russia to have military bases in Georgia and Armenia?

Answer:

- This is a question best directed to the parties of the agreement.

- Both Georgia and Armenia have negotiated and signed, but not yet ratified, basing agreements with Russia.

- We support the sovereign right of both Georgia and Armenia to negotiate, on a voluntary bases and without coercion, agreements, including those on military cooperation, with Russia and other countries.

Georgia:

- There were Russian military bases in Georgia before 1917, and Moscow maintained the bases during the Soviet era.

- Georgia is now independent, however, and has worked to develop good relations with all of its neighbors, including Russia.

- As Georgia works to build an effective military force, it looks to Russia to provide military assistance. Georgia has argued that this assistance might be treated as compensation for agreeing to Russian bases on Georgian territory.

Armenia:

- Armenia maintains close military-to-military ties with Russia, and continues to rely on Russian border troops to guard Armenia's borders with Turkey and Iran. Many of these Russian units include a high percentage of ethnic Armenians who are citizens of Armenia.

- Armenia's military remains organized under the former Soviet model and is equipped with former Soviet or Russian materiel. The Armenian military and Russian forces in Armenia periodically hold joint exercises.

- While working to strengthen its own armed forces, Armenia will probably continue to cooperate closely with Russia not only as a source of military assistance, but as a traditional security guarantor.

Question:

4. Is Azerbaijan under any pressure from Russia -- or from any Russian military or security agencies -- to permit long-term basing of Russian troops on its territory?

Answer:

- Press reports indicate that discussions take place between Russia and Azerbaijan on issues of military cooperation, such as bases and border guards.

- Our understanding from the Azerbaijani government is that they are not interested in such an arrangement.

- We support Azerbaijan's decision, as a sovereign, independent country, on this matter.

Question:

5. Does the government of Georgia control all of its major transport routes and facilities such as seaports outside of the separatist regions of Abkhazia and South Ossetia, or do Russian troops control some of them?

Answer:

- Russian border guard control Georgia's border with Turkey and the border facilities at Georgia's Black Sea ports of Batumi and Poti, though the 1994 agreement authorizing this arrangement has not yet been formally ratified by either Georgia or Russia.

- Georgian authorities control their other borders, i.e., those with Armenia, Azerbaijan and Russia, including the border opposite Chechnya.

- Georgia also controls its internal transport routes.

- Georgia recently turned down a request from Moscow that Russian border forces assume control of the Tbilisi international airport.

- Georgia is very interested in improving the capability of its own border forces. In response to a request from the Government of Georgia, the U.S. is exploring avenues through which to provide assistance in this area.

Question:

6. What would the U.S. response be if Russia reneges on its commitment not to undertake additional conventional arms sales to Iran?

Answer:

- We cannot engage in speculation over what the U.S. response would be to what is a purely hypothetical situation. I would say, however, that under Section 628 of the Foreign Assistance Act of 1961 as amended and under the Iran-Iraq Arms Non-Proliferation Act of 1992, trade in arms with Iran is sanctionable.

- If we had firm evidence that the government of Russia was engaging in arms trading with Iran, this legislation would certainly have to be taken into account in formulating our response.

Question:

7. Have Russian border troops stationed on Georgia's and Armenia's borders with Turkey engaged in corrupt activities -- such as drug smuggling -- as has been reported among Russian border troops stationed elsewhere in the former Soviet Union?

Answer:

- We have no information on Russian border troops' involvement in drug smuggling or other corrupt activiteis on the Georgian or Armenian border with Turkey.

- Information on barriers to trade between Turkey and Georgia consists largely of complains of bribes or "user fees" levied by petty Georgian officials. Most Turkish trucking enters Georgia via the Sarpi checkpoint south of Batumi, in a region not fully under Tbilisi's control.

Energy Pipelines

Question:

8. Has the United States offerred any government aid or backing to increase the likelihood that pipelines for oil and gas from the Caucuses will transit countries other than Russia and Iran?

Answer:

- The United States actively supports multiple pipelines, including a pipeline through the Caucasus and Turkey, to transport Caspian oil and gas to world markets.

- The resources in the Caspian will support more than one export system, and multiple pipeline routes will ensure that countries such as Azerbaijan and Turkmenistan are not dependent on a single outlet for their resources.

- While we have expressed our support for multiple pipelines to all of the companies and governments involved in Caspian oil development, we continue to discourage actions which add to Iranian revenue and influence.

- USAID has provided legal assistance to the Georgian government as it has established the Georgian International Oil Company, an entity which should facilitate the construction of proposed oil and gas pipelines from the Caspian.

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Question:

9. Does the U.S. oppose a "long-lead" pipeline for the export of oil from Azerbaijan that would pass through Russia, given that Russia already controls much of the pipeline traffic?

Answer:

- The USG supports multiple pipeline routes to transport Caspian oil and gas to the world markets. We believe that it is in everyone's best interest to have multiple pipeline routes.

- We foresee the need for multiple pipeline routes due to the vast energy resources in the Caspian.

- Multiple pipelines will encourage competition and foster lower energy prices.

- Routing of any pipeline is fundamentally a commercial decision for private companies.

- The U.S. will not oppose a main oil pipeline through Russia if the parties decide that this route is in their best commercial interests. The USG has endorsed a main oil route through the Caucasus to Ceyhan, Turkey.

Questions:

10. Is a "long-lead" pipeline for the export of Azerbaijani oil at all feasible for transit across Armenia if the issues associated with the conflict in the region of Nagorno-Karabakh can be resolved?

Answer:

- On technical grounds, we understand that a pipeline from Azerbaijan to the west which transits Armenia could be a viable option.

- A peaceful settlement will be essential to facilitating a route through Armenia.

- However, the routing of a pipeline through the Caucasus is fundamentally a commercial decision for private companies.

Question:

11. Would a pipeline through Turkey be beneficial to that country's economy, particularly its more depressed eastern regions?

Answer:

- The construction of Caspian pipelines through Turkey would be of enormous benefit to Turkey, as well as to Caucasian countries.

- Turkey imports more than half of its energy now, and will have to increase these imports to meet surging energy demand. Caspian oil and gas pipelines offer Turkey secure, cost-efficient energy supplies to meet this demand.

- A secure energy supply will help ensure Turkey's continued economic growth, which will benefit all areas of Turkey. Caspian pipelines, as envisioned, would be built in eastern Turkey, which would offer construction and trade revenues for a less developed area of Turkey.

- Secure energy supplies also offer the prospect of supplying new power generation facilities. U.S. companies are pursuing more than $8 billion in power projects, which could be powered by Caspian oil and gas.

Question:

12. How much revenue from its pipeline out of Iraq do you believe Turkey has forfeited due to its observance of the international sanctions on that country over the last few years?

Answer:

- We are not capable of making any exact assessment of the loss of these revenues.

- The Government of Turkey has reported to the UN that it earned $400 million a year in tariff revenues before sanctions closed the pipeline 1991.

- Sanctions have cost Turkey more than just lost pipeline revenues. Turkey submitted a paper to the UN estimating that it has lost $27 billion over the last five years in lost trade, reduced economic growth and other costs.

Question:

13. How supportive has the United States been in seeking a "long-lead" pipeline for the export of Azerbaijani oil through Turkey?

If it does not go through Turkey, doesn't that mean that it will go through either Russia or Iran?

Answer:

- The United States actively supports multiple pipelines for Caspian oil, including pipelines through the Caucasus and Turkey. This policy represents one component of our policy of encouraging the independence and future sovereignty of the smaller New Independent States through the development of their energy resources.

- We have publicly endorsed a route through the Caucasus and Turkey since January 1994 as part of our multiple pipeline strategy. We have been actively engaged with the regional governments to support these exports.

- If a main oil pipeline does not transit Turkey, that doesn't necessarily mean that it will go through either Russia or Iran. A number of other options have been suggested. The decision on a pipeline is fundamentally a commercial decision for private parties.

- We expect several pipelines to be necessary to export Caspian oil and gas.

Question:

14. What is the US position in the insistence by Turkey that the 1936 Montreux Treaty covering ship traffic through the Dardanelles and the Bosphorus be revised so as to ensure the safety of the millions of residents of Istanbul?

How will the revision of that Treaty affect the entire issue of pipelines out of the Caucasus, in your view?

Answer:

- We are not aware of any Turkish insistence that the Montreux Convention be revised. In fact, Turkey has worked within the framework of the International Maritime Organization to manage the Straits in line with its international obligations, including Montreux.

- Turkey retains sovereignty over the Turkish Straits under the Treaty of Montreux, although it also has a responsibility to manage their operation safely and without discrimination. In our view, Turkey is meeting its responsiblities in managing the Straits.

- The volume of traffic has increased far beyond the levels ever imagined by Montreux. Traffic has grown rapidly since the collapse of the Soviet Union as Eastern Europe and the Newly Independent States increase their links to the outside world.

- Currently, roughly 40 million tons of oil pass through the Straits a year. The Caspian petroleum projects under consideration could produce as much as an additional 60 million tons a year by the first decade of the next century.

- The Straits are physically limited in the size of ships that they can accommodate. The Straits are unlikely to be able to accommodate a doubling or tripling of the volume of oil seeking passage while also handling the already significant volume of non-oil traffic.

- To reduce the pressure on traffic management in the Straits, as well as to reduce the risk of a devastating environmental disaster, we have advocated long-term pipelines for Caspian oil transit. We have advocated a route to Turkey's Mediterranean port of Ceyhan as one alternative to the Straits.

- In addition, we have urged Turkey to install a modern vessel traffic services system.

Ukraine Oil Terminal

Question:

15. According to some reports, Ukraine badly needs to establish an oil terminal facility in order to diversify its sources of imported oil.

Has the U.S. examined the feasibility of such a facility in receiving future shipments of Azeri oil shipped from Georgia?

Is the U.S. offering assistance for the construction of such a terminal in Ukraine?

Answer:

- A representative of the U.S. Trade and Development Agency met with representatives of Ukraine's State Oil and Natural Gas Committee in October 1995 to discuss the committee's plans to build a terminal for importing oil at Odesa.

- TDA has been unable to proceed with a feasibility study on the Odesa project because the State Oil and Natural Gas Committee has not identified a U.S. partner qualified to carry out such a study and willing to bear a significant portion of the costs. There are also serious concerns as to whether the project can be financed.

- TDA is eager to fund bankable feasibility studies on infrastructure projects in Ukraine. TDA funds feasibility studies on a cost-sharing basis, where a U.S. firm is willing to contribute a significant portion of study costs and reimburse TDA if a project is a success. This requirement helps to ensure that taxpayer dollars are used only for commercially viable projects.

U.S. Interests in the Caucasus Region

Question:

16. What is the economic effect of Turkey's blockade on Armenia? How reliably does Armenia receive goods and supplies via Georgia? Is it more costly to our US assistance program to ship US-financed goods through Georgia than it would be to ship them across the Turkish-Armenian border?

Answer:

- Turkey does not maintain a blockade on Armenia. It closed its land border with Armenia in 1993.

- The closure of the border hinders Armenia's access to trade and transportation routes, but there is little practical effect, as direct, two-way trade between Armenia and Turkey was small before the closure.

- Turkish goods reach Armenian markets through Georgia. Turkey does not block passage of goods through the Straits.

- Very little assistance was shipped by rail through Turkey to Armenia before the closure, in part because it involves a change of rail cars to accommodate different gauges. Reopening the border would provide an alternative to Georgian ports and rail that would ease logistical headaches, but Georgia will remain the primary entrepot for Armenia in the foreseeable future.

- That said, Armenia seeks improved relations with Turkey, including opening of their land border. The USG has supported efforts to normalize Armenian-Turkish relations with both parties.

- The U.S. has financed and worked with the World Food Program Caucasus Advisory Unit (CLAU) to make the necessary improvements in the port and rail systems in Georgia and the two other Caucasus countries to ensure that our humanitarian good can be delivered reliably. With these improvements, the transportations system has been able to handle the volume of goods required by all three countries quite effectively.

- The present cost of delivery of goods through Georgia to Armenia is comparable to the costs of similar transport using Turkish ports, rails or roads. Thus transporting goods via Georgia does not increase the costs of our assistance program in Armenia. It is impossible to know, however, exactly what market conditions would produce if the borders were opened.

Turkish-Armenian Relations

Question:

17. It is reported that top advisers to the Presidents of Turkey and Armenia have held talks on issues involved in the Armenian-Turkish relationship.

What, if anything, has the US done to promote such talks?

Answer:

- Special Adviser Libaridian held talks with senior Turkish officials including PM Erbakan in Ankara. Telman Ter-Petrossian, brother of the President of Armenia, recently led an extensive delegation to Turkey to discuss both trade and political relations. We understand that Turkish and Armenian officials routinely hold talks on a wide spectrum of issues at various levels.

- We have encouraged Turkey and Armenia to pursue means of improving bilateral relations as well as fostering a settlement to Nagorno-Karabakh.

Question:

18. At what levels of Turkish government has the US raised the issue of ending the Turkish land blockade on Armenia?

Answer:

- Turkey does not maintain a blockade, land or otherwise, on Armenia. It has closed its land border with Armenia.

- Turkish President Demirel and then Prime Minister Yilmaz made important overtures to Armenia noting that Turkey would reopen the land border if Armenia and Azerbaijan could agree on a declaration of principles to settle the N-K conflict.

- We encouraged these gestures at the highest levels of the Turkish government.

Question:

19. Is it your impression that the Armenian government is seeking to move beyond the historical issues of the Armenian Genocide and claims to territories that were once considered Armenian in order to begin building a good bilateral relationship with Turkey?

Answer:

- In 1947, under Stalin, Armenia asserted claims to Turkey's provinces of Kars and Ardahan. While Armenia has not formally renounced these claims since independence, the Armenian government has not pressed them in recent years. Despite historical animosities, Armenia is determined to develop good relations with Turkey.

- The U.S. has actively encouraged normalization of Armenian-Turkish ties, while recognizing that the pace of this trend will remain limited so long as there is no settlement of the Nagorno-Karabakh conflict.

Question:

20. Has the U.S. considered inviting the leaders of Armenia, Azerbaijan, Georgia and Turkey to Washington for closed-door talks to try to resolve the conflicts in the region and improve bilateral relations? If not, why not?

Answer:

- We have not considered doing this under present circumstances.

- The countries of the Caucasus have constant contact with one another, with Turkey and with the U.S. The conflicts they have to resolve are varied, of long standing, complicated and not subject to instant overall solutions at marathon sessions.

- We encourage and facilitate bilateral contacts between Azerbaijan and Armenia and between Armenia and Turkey. These countries also talk to one another without our prodding. Not long ago the governor of Turkey's Kars province visited Yerevan for talks on border issues.

- The United States supports efforts to end the conflicts in the Caucasus. We have an Ambassador-at-large promoting peace in Nagorno-Karabakh, and we actively support the efforts of the OSCE's Minsk Group. We also participate in the Friends of Georgia group to promote peace in Abkhazia.

- We will continue to do all we can to facilitate regional harmony.

Question:

21. What, specifically, has the United States done to facilitate Turkish-Armenian negotiations on bilateral relations, given the need for stability in the Caucasus and the role that both countries might play in supporting American interests in the region?

Answer:

- The United States has been an active participant in the OSCE's Minsk Group, as has Turkey. Through the Minsk Group, we have actively encouraged all parties to seek a resolution of the N-K conflict.

- We have welcomed and encouraged Turkish efforts to improve its bilateral relations with Armenia. Specifically, we have commended Turkey for reopening the air corridor to Armenia, and for offering to reopen the land border if Armenia and Azerbaijan agree to a declaration of principles to resolve the N-K conflict.

Question:

22. I note that Turkey seems to have moved away from its initial position that the Karabakh conflict be settled first --- now stating that it will accept an agreement on the principles underlying a settlement to that conflict --- not necessarily a settlement itself --- in order to reopen its border with Armenia.

Is that an accurate description of the present Turkish approach?

Answer:

- Turkey indeed seems to have relaxed its conditions for reopening the border with Armenia.

- Turkey's position was previously that Armenia had to withdraw from the parts of Azerbaijan that it had occupied, as well as to recognize Azerbaijan's borders.

- In April, then Prime Minister Yilmaz announced publicly that Turkey would reopen the Armenian border if Armenia and Azerbaijan agreed on a declaration of principles to resolve the conflict - which could be short of agreement on those principles.

Questions from the Herbst/Presel/Adair Testimony
Before the House International Relations Committee
on July, 30, 1996

Armenian-Iranian Relations

Question:

23. What is the extent of Armenia's trade with Iran at this point? Does Iran plan to export energy supplies to Armenia?

Answer:

- Armenia has greatly increased its ties with Iran, including improved trade and transportation links, primarily as a way of mitigating the effects of the Turkish and Azeri embargoes. Iran has become Armenia's largest trade partner.

- Iran and Armenia have made various plans to import Iranian energy supplies to Armenia. They intend to link the two countries' power grids to allow importation of Iranian-generated electricity, perhaps by the end of 1996. Other projects under discussion include the construction of a gas pipeline; joint construction of hydroelectric projects along the Araks river border; and importing liquid gas by truck.

Question:

24. Would any present U.S. sanctions on Iran, or any of those recently considered by the Congress in the Iran-Libya sanctions legislation affect Armenian businesses' relations with Iran?

Answer:

- We have no evidence that Armenia is engaging in any sanctionable activity in its trade with Iran.

- If Armenia and Iran go forward with plans to develop a gas pipeline between their two countries, we would examine the details of the agreement -- including the magnitude of the Armenian investment and the timing of the contract -- to assess whether it would be sanctionable under the Iran and Libya Sanctions Act of 1996, signed by the President August 5.

Azerbaijani-Iranian Relations

Question:

25. How has Iran reacted to Azerbaijan's interest in good relations with Israel?

Answer:

- Iran has objected to Azerbaijan's good ties with Israel and has exerted pressure on the government of Azerbaijan to distance itself from both Israel and the U.S.

- This attitude is also exhibited in Iran's official press. For example, on May 26, 1996, the Islamic Republic News Agency (IRNA) wrote: "Certain factions affiliated to the Zionist regime are reportedly active in expanding anti-Islamic measures through taking control of cultural, commercial and economic centers of the Azerbaijan Republic."

Question:

26. Ambassador Presel, as Coordinator for Regional Affairs, you are also responsible for providing U.S. assistance in resolving the conflicts in Georgia, aren't you?

With your pressing duties regarding the conflict in the region of Nagorno-Karabakh in Azerbaijan, how much time are you able to spend on conflict resolution in Georgia?

Do we need more envoys to deal with resolving these conflicts in Abkhazia and South Ossetia in Georgia?

Answer:

- I am responsible for our efforts on the Georgian conflicts in addition to Nagorno-Karabakh.

- I do indeed spend most of my time on Nagorno-Karabakh, as that is the conflict to whose solution the U.S. can most effectively contribute in the short term.

- That in no way detracts from our conviction that we can also contrbute to efforts for peace in Georgia. I devote great efforts to the conflicts there -- I went to Abkhazia and Tbilisi with Ambassador Courtney in early September.

- Ambassador Courtney is also very engaged in this process; he has visited Abkhazia three times in recent months, and maintains an active dialogue with the Georgian Government and Friends of Georgia in Tbilisi.

- Primary responsibility for making peace lies with the parties that are making war. Solutions that are forced on the parties to any conflict are by definition unstable and unlikely to last. The U.S. has its role to play in each of the Caucasus conflicts. We believe our office is appropriately staffed for our present role. More people now will not solve the problems.

The Conflict Over the Karabakh Region of Azerbaijan

Question:

27. Is the U.S. willing to assume a position as co-chair of the OSCE "Minsk" process (just as Russia now holds a co-chair)? Would that be an advantage or disdvantage to bringing more U.S. influence to bear in support of a solution to the conflict?

Answer:

- Some countries have requested that we take on the co-chair. We have assured them that we will consider the pros and cons.

- We are interested in achieving results. We do not rule out serving as co-chair in the future, if circumstances warrant it.

Question:

28. What is the U.S. Government's position on official meetings with representatives of the ethnic Armenian leadership in the region of Nagorno-Karabakh? Have U.S. Government officials participated in official meetings with sucvh representatives?

Answer:

- Ambassador Presel, in his capacity as Special Negotiator for Nagorno-Karabakh, has visited Stepanakert several times and has frequently held meetings with Nagorno-Karabakh Armenian leaders, including Robert Kocharyan. He visited Nagorno-Karabakh in mid-September; his deputy traveled there with a Minsk Group delegation in early October.

- Our Embassy in Yerevan has frequent contact with representatives of the NK Armenians in Yerevan, including visiting members of the NK Armenian leadership.

- Since we (and every other country in the world) recognize Nagorno-Karabakh as part of Azerbaijan, it would be inappropriate for diplomats accredited to Armenia to cross into Azerbaijan to meet NK Armenian leaders. While it would be appropriate for officials from our Embassy in Baku to travel to Nagorno-Karabakh, it would be physically dangerous to attempt to do so and the NK Armenian leaders would probably not accept such a visit.

- We have frequent contact with NK Armenian representatives at meetings of the OSCE Minsk Group. NK Armenian "Foreign Minister" Arkadiy Ghukasyan is the chief NK Armenian representative at these meetings.

Question:

29. Does the Government of Azerbaijan engage in direct talks with the ethnic Armenian leadership from the region of Nagorno-Karabakh? Should the U.S. encourage such direct talks if they don't already take place?

Answer:

- We are aware that there have been talks at a very senior level between officials of the Government of Azerbaijan and the leadership of the Nagorno-Karabakh Armenians.

- The primary direct channel, however, is between Azerbaijani officials and officials of the Republic of Armenia. The leaders of the Nagorno-Karabakh Armenians have assured us that they support these talks.

Question:

30. What is the evidence, if any, that Turkey has provided military supplies or support to the government of Azerbaijan in the conflict over Karabakh? Does such military support, if any, violate any U.S. laws on third party transfers of U.S. derived material? Have any other countries provided outside military support to the parties to the conflict over Karabakh?

Answer:

- Turkey has signed a number of defense agreements with Azerbaijan. Turkey has provided training to the Azerbaijani army; this would not violate U.S. laws.

- We are not aware that Turkey has transferred any U.S.-derived material to Azerbaijan.

- Armenian Republic units have participated in the conflict.

- All parties to the conflict have enlisted mercenaries from Russia and elsewhere in the former Soviet Union. Turkish volunteers and Afghan Mujahidin mercenaries have fought on the Azerbaijani side. Citizens of the U.S. and France have fought for the NK Armenians. There is no clear evidence that any of these foreigners had the backing of their governments.

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- Virtually all military equipment used in the Nagorno-Karabakh conflict is of Soviet manufacture. The government of Armenia has supplied the NK Armenians. Both Azerbaijan and the NK Armenians have purchased military hardware from other former Soviet republics. It is not clear that these purchases were carried out with the official permission of the governments of those republics.

Question:

31. Do the positions of the Armenian government and of the ethnic Armenian leadership in the region of Nagorno-Karabakh in Azerbaijan differ on how to arrive at a resolution to the Karabakh conflict? If so, how?

Answer:

- The leadership of the Nagorno-Karabakh Armenians declared the region an independent republic in January 1992, an act recognized by no other state including Armenia.

- Both the Government of Armenia and the leadership in Nagorno-Karabakh have assured us that they coordinate closely and that the Nagorno-Karabakh Armenians fully support the peace negotiation efforts of Armenian Presidential Advisor Gerard Libaridian. Armenia and the Nagorno-Karabakh leaders have expressed no differences on their positions in the Minsk Group, on which both are represented.

Question:

32. What is the extent of the influence of the Armenian government over the ethnic Armenian leadership in the region of Nagorno-Karabakh in Azerbaijan?

Answer:

- Relations between the Armenian government and the leadership of the Nagorno-Karabakh Armenians are close. Several senior members of the Government of Armenia are from Nagorno-Karabakh. The relationship between Armenian President Ter-Petrosian and Nagorno-Karabakh leader Robert Kocharian appears to be close, despite some personal and poltical differences. Armenia continues to supply arms and materiel to Nagorno-Karabakh, and Armenian forces have participated in the conflict both as volunteers under N-K command and as Armenian formations. While Armenia has great military and economic influence in Nagorno-Karabakh, the N-K Armenians also have considerable political and emotional influence in Armenia.

Question:

33. Is Russia willing to accept that it will not play a dominant role in any OSCE peacekeeping force that might one day be authorized for Nagorno-Karabakh?

Answer:

- Under current arrangements, Russia would probably provide the largest single contingent of troops to an OSCE peacekeeping force for Nagorno-Karabakh. There would be substantial western participation as well as participation from other NIS countries. At present we do not envision sending U.S. peacekeepers, though we do intend to play an appropriate role.

- The exact composition and terms of reference for a peacekeeping force are still under discussion in the OSCE Minsk Group.

Question:

34. What is Turkey's view on an OSCE peacekeeping force for Karabakh? Would Turkish troops participate in such a force?

Answer:

- Turkey favors the deployment of an OSCE peacekeeping force for Nagorno-Karabakh. As currently projected, that force will have its logistical base in the Turkish city of Erzurum, with the participation of Turkish authorities.

- The attitude of Armenia and the Nagorno-Karabakh Armenians towards Turkish participation in a peacekeeping force is unclear. While originally objecting to the logistical base in Erzurum, NK Armenian officials recently stated that they might accept Turkish participation in the PKF under certain circumstances.

- We believe Turkey is prepared to participate, if that is acceptable to all concerned.

- Turkey has been very supportive in general of peacekeeping forces around the world, notably in Somalia and Bosnia. Turkey has also been very supportive of the OSCE Minsk Group. We expect Turkey will continue to support OSCE initiatives, including a peacekeeping force.

The U.S. Diplomatic Presence in the Caucasus

Question:

35. Is our current complement of U.S. diplomatic personnel in the Caucasus countries sufficient to handle the increasingly complex issues involving the political and economic transformations occurring there, the varied ethnic conflicts and tensions, the Russian and Iranian role in the region, and the important questions surrounding energy development?

How many personnel are posted at each of the three Embassies in the region?

Answer:

- Our embassies' staff - both American and local - have put in many long hours representing the United States in each of the Caucasus states. We continue to provide support to them from Washington.

- Although small, our embassies are able to get the job done quickly and efficiently. They do outstanding work and we are very proud of them.

- There are 17 American personnel at Embassy Baku, 25 American personnel at Embassy Tbilisi, and 43 American personnel (20 of which are local hires who work primarily for USDA and USAID) at Embassy Yerevan.

Question:

Misc. Ambassador Presel, after your confirmation hearing, the Administration responded in writing to a question by Senator Helms by saying the following: "The Administration has urged Turkey to end its embargo of Armenia, and the Administration will continue to raise this subject at the highest levels of the Turkish government." Can you tell the committee at what levels of the Turkish government this subject has been raised?

Answer:

- This subject has been raised with Turkey at the level of President and Prime Minister, as well as throughout the rest of the bureaucracy.

Question:

Misc. Turkey closed its borders with Armenia unilaterally in April 1993 and is supporting the blockade of Armenia by Azerbaijan. While Armenian President Levon Ter-Petrossian has sought, without preconditions, to establish diplomatic relations with Turkey, the Turkish government has responded with acts of hostility by depriving Armenia of contact with the West. Turkey has rejected President Ter-Petrossian's repeated offer to establish normal, diplomatic relations. Does the Administration support Turkey's refusal to establish diplomatic relations with Armenia?

Answer:

- Turkey clearly does not maintain a blockade of Armenia. Rather, it has closed its land border. Turkey is a major exporter of goods to Armenia through Georgia.

- We are aware of several Turkish efforts to improve relations with Armenia, most notably by reopening the air corridor and by offering to reopen the land border once Armenia and Azerbaijan agreed on a statement of principles for a settlement. We are unaware of the response the Government of Armenia has given to the Government of Turkey in reaction to either of these gestures.

- Turkey closed its border with Armenia in response to the occupation of Azerbaijani territory by Armenians from Nagorno-Karabakh. Previously, Turkey has called on Armenia to withdraw from some or all of this territory as a gesture of its goodwill. Such a gesture would be welcome not only in Ankara, but also in Baku and in Washington.

- Turkish and Armenian officials have met on a regular basis for quite some time. We are not aware of hostile statements from either government towards the other.

- However, until more progress is made towards reaching a settlement, we do not expect Armenia and Turkey to be in a position to establish permanent diplomatic representation in each other's country.

U.S. Interest in the Caucasus Region

Question:

Misc. Encouraging confidence building measures among the conflicting parties that move forward in parallel to formal talks are typical and effective tactics in conflict resolution. I assume that the Administration would support any serious effort at confidence building. Yet the record shows that the Administration has opposed three such concrete actions initiated by Congress --1)$15 million in the FY'96 Foreign Operations bill for the creation of a Transcaucasus Enterprise Fund, 2)$10 million in the proposed FY'97 Foreign Operations bill for the Enterprise Fund, and 3)Proportional humanitarian relief via western PVOs for refugees and displaced populations in the Republic of Azerbaijan and Nagorno-Karabagh. Why?

Answer:

- The Administration is very supportive of the concept to create a Transcaucasus Fund, and is actively pursuing the creation of a new investment mechanism for the Transcausus region. The Administration actively opposes all earmarks, but does not and has not opposed the concept of a Transcaucasus Fund.

- We have had discussions with various entities that might be able to match the $15 million of FY 96 funds (and the possible $10 million in FY97) so as to increase the size of the fund.

- With respect to the provision of proportional humanitarian relief to refugees and displaced populations in the Republic of Azerbaijan, including Nagorno-Karabagh, we have sought to provide equitable relief to the people displaced by the conflict based on the needs as identified by the

international and U.S. relief agencies working in the area. We have sought to avoid artificial ratios that may not take into account the actual needs found to exist within the affected populations.

- Our objective remains to bring necessary humanitarian relief to any refugees or displaced populations in the region who have been affected by the hostilities.

Question:

Misc. Turkey is currently in violation of Section 562 of P.L. 104-107, commonly known as the Humanitarian Aid Corridor Act. What steps has the Administration taken to urge Turkey to comply with U.S. law?

Answer:

- We have explained the provisions of the law to the Turkish government, and encouraged it to allow the delivery of humanitarian goods to Armenia.

- We note that such delivery would be possible by air, although we understand that this is not a viable form of transport for bulk goods.

- Turkey has offered to reopen its land border with Armenia, beyond merely humanitarian goods, if Armenia and Azerbaijan agree on a statement of principles to settle the Nagorno-Karabakh dispute. We applauded Turkey's unilateral initiative, and encouraged the Turkish Government's efforts to persuade both governments to reach agreement on these principles.

U.S. Interests in the Caucasus Region

Question:

What types of goods, including humanitarian supplies, are unable to reach Armenia and Nagorno-Karabakh because of the blockades imposed by Turkey and Azerbaijan?

Answer:

- We are unaware of any goods that do not reach Armenia or Nagorno-Karabakh as a result of borders being closed.

- With assistance from the U.S., alternate routes have been established and developed, primarily through the ports of Poti and Batumi in Georgia.

- The U.S. has provided significant support and assistance to the Caucasus Assistance Advisory Unit of the World Food Programme, which is substantially responsible for the smooth operations and improvements in the regional port/rail system throughout the Caucasus. With this support, the transport system through Georgia has been able to handle the import traffic needs of the three countries of the region.

Additional/Miscellaneous Questions

Question:

Do you think the Turkish blockade of Armenia is helpful to the Administration's goal of assisting the Newly Independent States of the former Soviet Union become economically self-sufficient?

Answer:

- Turkey has an extensive trade with Armenia. Turkish goods, transported by Turkish trucks through Georgia, are readily available in Armenian shops. Nonetheless, the closure of Turkey's border with Armenia hinders Armenia's access to the West, which would be best served by having as many open channels as possible. The closure is also symbolically important, especially since Armenia's border with Turkey is patrolled and regulated by Russian Federation border guards.

- The Government of Turkey, despite substantial domestic pressures, maintained an open border and allowed aid to transit to Armenia until the spring of 1993, when Nagorno-Karabakh Armenians seized Azerbaijani territory outside the disputed enclave. Turkey closed its border in response.

- In April 1995, Turkey opened an air corridor to Armenia, which allows commercial air traffic between the two countries. Turkey has also indicated willingness to reopen

the land border once Nagorno-Karabakh forces have withdrawn from occupied Azeri territories, or if the parties sign a declaration of principles on resolving the conflict.

- The most effective way to remove all impediments to transportation and supply in the region is to secure a comprehensive peace. The U.S. has been working toward this end in the OSCE's Minsk Group, in which Turkey has played a helpful and useful role.

Humanitarian Needs Assessment in Nagorno-Karabakh

Question:

Does the Administration oppose the UNHCR conducting a humanitarian needs assessment of Nagorno-Karabakh?

Answer:

- We do not oppose a humanitarian needs assessment by the UNHCR in Nagorno-Karabakh.

- We remain concerned about the humanitarian situation throughout the Caucasus, and these assessments help us guide our assistance efforts in the region.

- We continue to provide funding to the ICRC, which is active in the Nagorno-Karabakh region of Azerbaijan, to ensure that the needs of the most vulnerable are being met.

Miscellaneous Questions:

Question:

Yet another substantial confidence building measure for the conflicting parties is trade. The dominant opportunity in the Caucasus is the development and export of significant reserves of fossil fuels. East-west pipelines for natural gas and oil from Azerbaijan through Armenia with a terminus on the Mediterranean coast of Turkey would have considerable impact on the views of those governments as they assess their policies on any subject of conflict among them. It is my understanding that a trans-Armenia pipeline route is the most direct path between Baku and the Turkish Mediterranean. What is the Administration doing to promote Azerbaijani/Armenian/Turkish dialogue on this route?

Answer:

- On technical grounds, we understand that the route through Armenia could be a viable route.

- Routing of the pipeline through the Caucasus is fundamentally a commercial decision for the private companies.

- The USG is working closely with the countries in the region and the U.S. oil companies to encourage a regional solution that is beneficial to all parties.

Oil Pipelines and the Nagorno-Karabakh Conflict

Question:

Despite the Chechnya war, Russia and Azerbaijan pursue a northern "early oil" pipeline route. Despite the unsettled Abkhaz and Ossetian situation, Georgia and Azerbaijan pursue the western "early oil" pipeline route. Why cannot Armenia, Turkey and Azerbaijan pursue a permanent western pipeline route?

Answer:

- There is a clear difference between an Armenian-Turkey-Azerbaijan effort to build a pipeline to the examples cited on cooperation for the early oil pipeline routes: Azerbaijan does not consider itself in a state of war with Russia or Georgia, while it does so with Armenia.

- In order for a trilateral effort to have a chance for success, peace will need to be established between Armenia and Azerbaijan.

- Ultimately, decisions on pipeline routes will need to be made on a commercial basis by those involved in these projects.

STATEMENT
AMBASSADOR RICHARD L. ARMITAGE
INTERNATIONAL RELATIONS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
JULY 30, 1996

Chairman Gilman, Representative Hamilton and Members of the Committee, I would first like to thank you for taking the time to delve into a very tangled and complicated matter. I have no simple solutions to the turmoil in the Transcaucasus. I am honored by your invitation to testify and will attempt to repay your kindness by being brief and by focusing my remarks on the issue that seems to have the most political salience in Congress: the dispute between Armenia and Azerbaijan.

Although instability in the Transcaucasus region does not engage a *vital* American interest, it nevertheless presents the U.S. and its citizens an opportunity to act constructively and in a manner consistent with our own political and economic equities. This is a corner of the world where great issues -- the dissolution of the Soviet Union, the explosion of ethnic conflict and the presence of significant petroleum reserves -- all combine to create a diplomatic challenge of the first order.

I am a strong believer in American diplomatic activism in the Transcaucasus. Although the Congress has, at times, felt obliged to express itself in a manner that seems to favor one ethnic group over another, it is still true that all of the states in the region continue to regard the U.S. as an honest broker. If our principal diplomatic objective is to help the parties resolve conflict and build linkages which help ensure their independence and prosperity, I would hope that Congress will support the efforts of the Executive Branch to achieve that objective irrespective of partisan pressures it feels.

Like many Americans who have tried to play a constructive role in bringing relief to those who have suffered from war and blockade, I am privileged to have friends on both sides of the Armenia-Azerbaijan divide. I believe that within the region there is a strong desire to resolve the Nagorno-Karabakh dispute and get on with developing and sharing the enormous economic potential that the Caspian holds for all, including Armenia. I hope that private American citizens who lobby Congress on this issue will keep foremost in their minds the long-term interests not only of the U.S., but of those who actually live their lives in this troubled region and who must face the awful consequences of military victory or military defeat. The fact of the matter is that there can be neither victor nor vanquished unless we are prepared to see today's turmoil stretch for decades into the next century.

Although I believe we should accord the Transcaucasus a higher diplomatic priority than it currently enjoys and that we should generously endow a Transcaucasus Enterprise Fund to build linkages among Armenians, Azerbaijanis and Georgians, there is little we can do if the parties themselves fail to act responsibly in their own best interests. I would like to see Armenians on their own come to the realization that the occupation of Azerbaijani territory and massive refugee problem it has created represent a dead-end for Armenia. I would like for Azerbaijan and its Turkish ally to recognize that impediments to the delivery of humanitarian assistance to Armenia have no practical value except to encourage those whose interest in a settlement, equitable or otherwise, is minimal.

I am content to leave it to the experts to devise a solution to the status of Nagorno-Karabakh. What I would like to see is an American diplomatic initiative rooted in ameliorating the humanitarian disaster that has affected all parties and which, unless corrected, is laying the basis for decades of needless suffering. I hope that the Congress will encourage the Administration to act creatively and will support efforts along this line irrespective of domestic pressure to take sides.

David Nissman
Adjunct Professor, Georgetown University
30 July 1996
House Committee on International Relations

USA Interests and the Caucasus Region

Russia, Iran and the Transcaucasus: Maintaining the Imbalance of Power

Russia's expansion to the south and subsequent need to fortify and protect its borders in the Transcaucasus has been a primary feature of Russian policy for two centuries. The Soviet-Iranian Treaty of 1921 permitted the Soviet Union to extend even farther to continue in its expansion southward: a paragraph (described by one scholar as "odious")in this treaty permitted them to occupy northern Iran in 1941, allegedly to "take the necessary measures in the interests of self-defence."[1] They only moved back within the borders of the USSR in May 1946. The collapse of the USSR, however, forced Russia to withdraw from the Soviet borders in Georgia, Armenia and Azerbaijan into the North Caucasus which constituted the new southern borders of the Russian Federation. At the same time, it was clear to Russian policymakers that the allegiances of the newly independent states of Azerbaijan, Georgia and Armenia were no longer necessarily with Moscow, but were more westward-looking. This required that a new policy be generated with regard to both the borderlands of the North Caucasus and the newly independent countries of the Transcaucasus. The result can be described as a policy seeking to maintain an imbalance of power. In this policy, it has found a willing collaborator in the Islamic Republic of Iran. By coordinating their actions, the two large regional powers have been able to impede the processes of national integration occurring in the three new nations of the Transcaucasus.

Russia pursued a dual policy with regard to ethno-territorial units both within the Russian Federation and immediately adjoining it after the breakup of the Soviet Union. Within the territory of the Russian Federation, its policy was one of 'sovereignization' which had begun in the latter years of glasnost and continued through much of 1994. It was Moscow's policy to allow the various regions of the Russian Federation as much autonomy and sovereignty (even, at one point, up to and including secession) as they could use. It was a major step toward the decentralization of the administration and, on paper, seemed to make sense. Not all political analysts, Russian or non-Russian, thought so. Umarserik Kasenov, director of the Kazakhstan Strategic Research Institute, claimed the process will

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[1]. M.I.Volodarskiy, *Sovety i ikh yuzhnyye sosedy. Iran i Afghanistan: 1917-1933* (London, 1985), pp 82-83.

weaken Russia's status as a great power.[2] Outside the Russian borders, the policy was one of 'ethnocratism', a powerful tool in the hands of a power wishing to destabilize the new nations to the south. Critics of Russian policy have accused Russia of applying this policy in its open support of Abkhazia in the Georgian-Abkhazian conflict, as well as in Nagorno-Karabakh. A.A. Popov, a consultant to the Analytical Center of the Office of the President RF, accuses Moscow of supporting 'ethnocratism' by indulging in 'ethnostatophilia!' He says with regard to the Georgian-Abkhazian conflict, that

> "...having secured inviolability of the ethnocratic regime which by force of arms detached Abkhazia from the Georgian state and 'cleansed' it of the 200,000 strong Georgian population, Moscow convinced everyone in the Caucasus that separatist rebellions are a good thing and that a reference to the sanctity of the 'struggle for national liberation' justifies everything."[3]

Moscow rejected the policy of 'sovereignization' because the war in Chechnya had triggered a political realignment in the North Caucasus. Russian policymakers felt this process might bring about a wave of secessionist tendencies among other ethnoterritorial administrative units both in Russia's south and elsewhere. Throughout the Soviet period, the territorial-administrative districting was aimed at breaking up such ethnic blocs and now they were threatening to reassemble in their pre-Russian state.

If the various North Caucasian movements and processes were causing so much instability on Russia's southern borders, similar movements would, of course, bring about instability in the newly independent states of the Transcaucasus.

Iran, on the other hand, saw an opportunity to stake out its own interests in the Transcaucasus by working hand in hand with its new ally and former enemy, Russia. Their collaboration has been made manifest by their joint participation on the status of the Caspian Sea under the terms of which they have repudiated Azerbaijan's rights to the resources (oil) in its own territorial waters and by the Russia-Armenia-Turkmenistan-Iran Transit accord, which will be the means by which Russia will transport its nuclear technology to Iran. Azerbaijan has become its special target.

The emergence of the three newly independent states of Azerbaijan, Armenia and Georgia deprived Moscow of a border that had protected its southern flank for almost two hundred years, it also emphasized its own loss of sovereignty over three former

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[2]. Umarserik Kasenov *Nezavisimaya Gazeta* 24 January 1995.

[3]. A.A.Popov *Segodnya* 7 April 1995.

vassal states. Moscow has bent its efforts in the direction of acquiring military bases in these republics, trying to force Azerbaijan and Armenia to sign an agreement placing Russian border guards on the Azeri and Armenian borders with Turkey and Iran, and establishing good relations with Iran as a counterweight to Azerbaijan. Georgia had signed such an agreement under pressure from Moscow, and Armenia willingly did so. Up to this point, Azerbaijan, feeling such an arrangement would mean a voluntary surrender of sovereignty, has refused this arrangement despite relentless pressure from the north.

At the same time Moscow openly supported the Abkhazian secession from Georgia until 1994 (as mentioned above), it also provided financial and other types of aid and support to separatist movements. In Azerbaijan, the government is convinced that Russia has provided more than token support to the Armenian Karabakh separatists in the Armenian-Azerbaijan war, and it is publicly known that Moscow is behind the Lezgian Sadval movement, who blew up the Baku metro last year among other acts of terrorism, which aspires to its own territorial autonomy on territories now part of Dagestan and Azerbaijan. If they achieve this autonomy, the new Lezgian ethnoterritorial unit will become part of Dagestan, which is part of the Russian Federation In brief, Moscow policy makers have decided that the surrender of sovereignty by the three Transcaucasian states is necessary in order for the Russian Federation to maintain the security of its borders. Apparently, this is not the only use this presence will serve; on the occasion of the signing of the Russian-Armenian troop agreement, President Yeltsin said this "legalizes" the Russian presence, which is "relevant not only to the Transcaucasus but also to adjacent areas of the Near and Middle East" (Interfax, 18 July 96), The "adjacent area" is the Republic of Turkey

While Russia has been busy in maintaining ethnic tension in the region, Iran has been equally busy exporting its own brand of Islam, with Azerbaijan as the obvious target.

Ali Kerimov, Deputy for the Azerbaijan Popular Front Party at the National Assembly, discussed Azerbaijan's relations with Iran with me in May. In brief, this is what he said:

> Iran does not want an independent Azerbaijan ...Relations between the two countries are now hostile. Three years ago there were no Iranian molla/agents in Azerbaijan; now 75 percent of the mosques in the country are staffed or controlled by them. Iranian propaganda is especially strong among the one million refugees...

His statement was echoed by Asim Mollazade of the Democracy Foundation in Baku, who claimed that Iran is spending ten million dollars a year on propaganda, including a daily one-hour TV broadcast beamed at Azerbaijan. Namik Akhundov, head of the International Department of Parliament, said that "Iran is a

greater enemy than Russia, more feared; Iranian relations are more difficult to predict." He added that "after 1979 Iran exported Islam like Russia exported communism. Both Russia and Iran have common interests in Iran: neither wishes to see democracy there."

The end effect of these Transcaucasian manipulations is that Georgia is severely destabilized due to the Abkhaz secessionist movement, and two other ethnoterritorial regions and peoples in Georgia -- the Adjar and the South Ossetian -- are thought to also have secessionist aspirations; Azerbaijan is confronted not only by the Karabagh conflict and its aftermath, but also by two lesser challenges to its territorial integrity -- 'Lezgistan' and the Talysh struggle (the 'Mughan Republic'of 1993) in the south of the country; and Armenia is forced to take protection from Russia at a cost to its own sovereignty. Russia has created a classical imbalance of power in the Transcaucasian nations, it is being aided and abetted by Iran.

And what has the position of the United States government been in all this? It has taken no position, the Transcaucasus has been left to its own devices, and it appears that Russia and Iran are free to conduct the war for the minds and territories of the three easternmost nations of Europe. What do the peoples and political leaderships expect of the West, of which the USA is the most prominent representative?

Once again, let me cite a few wishes expressed to me by the political leadership in Baku in May: Ali Kerimov, whom I quoted earlier, finds hope in the European integration process and cited a recent poll in which it was established that 75 percent of the population want integration. But this process has now slowed. The former acting President of Azerbaijan and present leader of the Musavat Party, Isa Gember, hopes for a NATO expansion which will include Azerbaijan. Others have mentioned that even a small American military presence would make it possible to allow a Russian miltary presence in Azerbaijan while offsetting further Russian demands on Azerbaijan's sovereignty.

The three countries of the Transcaucasus have all opted in the direction of democracy and free market economies. But if America neglects them, continues to turn a blind eye to Russia and Iran's expansionist tendencies, the region will continue to be a zone of ethnic conflict and regional tension. One of the officials to whom I spoke said: "Azerbaijan does not want to be another Bosnia!"

JULY 30, 1996

STATEMENT OF MR. ROBERT E. EBEL
DIRECTOR, ENERGY AND NATIONAL SECURITY
CENTER FOR STRATEGIC & INTERNATIONAL STUDIES
ON UNITED STATES INTERESTS IN THE CAUCASUS REGION
BEFORE THE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

My name is Robert E. Ebel. I am Director, Energy and National Security, for the Center for Strategic & International Studies, a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary.

Within the last several years, the Caspian Sea basin of the former Soviet Union has become the focus of attention for the world oil industry. Five nations border on the Caspian Sea--Russia, Kazakstan, Turkmenistan, Iran, and Azerbaijan. Because their national interests do not always coincide and because of the power conferred by oil, development of the Caspian cannot be separated from politics.

The producing potential of the Caspian Sea basin has caught the eye of the major international oil companies for several reasons.

- First, nothing is quite attractive as something which in the past has been denied but which is now available.
- Second, the Caspian producing potential is world-class.
- Third, this potential cannot be realized within an acceptable time frame without outside participation.
- Fourth, and perhaps most important for the foreign investor, the oil will not be developed to meet domestic requirements. Domestic requirements are comparatively small and are expected to remain that way. Most of the oil to be produced will be for the export market.

The size of the Caspian Sea basin--about 900,000 square miles--may come as somewhat of a surprise. It is roughly one-fourth the size of the United States.

How rich is the Caspian Sea Basin in terms of oil and gas? No one can say for certain, other than to emphasize its potential. But there is a problem regarding potential, whether measuring the potential of an individual or the potential of a nation. For both, having a recognized potential is a tremendous burden to bear. Some fail to live up to what has been expected of them, while others succeed, for whatever the reason.

One informed authority has suggested that proven reserves in the Caspian Sea basin exceed 40 billion barrels and that there is a remaining oil potential perhaps of more than 160 billion barrels. For comparison, proved crude oil reserves of the United States are just slightly under 30 billion barrels.

Nonetheless, it remains for exploration and development programs to either confirm or deny the Caspian potential and to bring that potential to life.

Handling Risk and Enthusiasm

When oil companies search for crude oil and natural gas, three completely different kinds of risk are confronted.

- **Geologic risk.** Are the underground rock formations such that they would trap and hold crude oil or natural gas?

- **Technical risk.** If oil or gas is discovered, is available technology up to the task of bringing these resources to the surface, at a cost which supports project viability?

- **Political risk.** The higher the political risk, the higher the return must be. Can the project yield a financial return commensurate with the perceived political risk?

If a prospective investor were to consider an exposure in the Caspian basin, how would these three risks be evaluated?

Virtually all the crude oil and natural gas-related projects which have been offered in the basin to the foreign investor--whether joint ventures or production-sharing arrangements--involve development where the presence of oil or gas has already been confirmed, and often where some production had already been initiated.

That in effect eliminates geologic risk.

Further development of these deposits had been halted because of a shortage of investment capital, or because technology available to the developer could not get the job done. Had adequate capital been available, the necessary technology could have been purchased abroad. Off-the-shelf Western oil field technology is more than adequate for the tasks at hand.

Technical risk can now be eliminated, leaving just political risk to contend with.

Investors in Caspian oil essentially have traded geologic and technical risk for political risk. Is this an unwise trade? Probably not. There is risk in any oil-related venture. If there were no risk, then most assuredly there would be no return on the capital invested.

We must be careful not to let our enthusiasm cause us to over-estimate the contribution of Caspian oil to world oil supply. Caspian oil will not be able to provide a reasonable substitute for Persian Gulf oil. Caspian oil cannot compete with Persian Gulf oil in terms of easy access to the major world markets, nor will this oil likely be able to compete in terms of levels of production or costs of production. These are all advantages bestowed by Mother Nature on Persian Gulf oil, and apparently no one else.

Above all, that means U.S. Persian Gulf policies in the years ahead will be just as important as today, if not more so, as world oil demand increases, with Persian Gulf producers shouldering much of the incremental supply burden.

Pipeline Routings And Politics

Three of the Caspian littoral states--Azerbaijan, Kazakstan and Turkmenistan--are land-locked. Pipeline routes must be selected before oil and gas exploration and development can get under way. The pipeline routings proposed to carry Caspian oil to world markets are all technically feasible and impose no unusual requirements on pipeline construction companies. These proposals are financially viable as well.

Unfortunately, it seems no matter what direction planners might look, each prospective route faces political challenges from dissident or separatist activity. These challenges have such long-standing history that no long-term solution can be guaranteed.

The pipeline proposed to carry oil from the Tengiz deposit in Kazakstan to the Black Sea port of Novorossiisk is the only routing which passes through politically quiescent territory.

Pipeline politics have become the issue of the day.

The competition for pipeline routings is fierce, and contentious. The players in the game of pipeline politics must remind themselves from time to time that **peace can bring a pipeline, but a pipeline cannot bring peace.** Some hopeful transit countries may publicly state otherwise, that is, build a pipeline and peace will come. That is wishful thinking.

Georgia and Armenia

The Caucasus is to be a key transport corridor to foreign markets as Caspian oil is developed. Oil from Tengiz in Kazakstan and natural gas from Turkmenistan may also pass through this corridor to markets outside the former Soviet Union.

Although part of the early oil from Baku is to transit Georgia and there is hope that the later oil will as well, Armenia's position is less certain. Armenia very much would like at least a portion of the later oil to cross its borders, but the dispute with Azerbaijan over Nagorno-Karabakh clouds that possibility.

The political and economic gains to the Caucasus as a corridor for oil and gas are clearly recognized, but all parties appear to understand that final routings may be based first on political considerations.

Turkmenistan

Turkmenistan is now beginning to take initial steps to explore for hydrocarbons off its shore in the Caspian Sea. At the same time Turkmen onshore natural gas reserves are world-class but access to foreign markets is blocked in every direction that planners look: blocked by politics and blocked by geography. Turkmen's day will come, but perhaps later rather than sooner.

No Game Without Russia

Because Caspian oil is surrounded by such divergent interests, then it must be understood that compromise will be required, offering transit states a vested interest in development, if the proposed projects are to be brought to life.

Unfortunately, at the beginning not all the interested parties fully understood just what compromise meant. Finally, it was recognized that **compromise really meant giving Russia a seat at the table, which translates into equity participation both in pipeline construction and operation and in oil development projects.**

It is quite evident that there can be no game unless Russia is invited to play. That has held true for oil field development offshore Baku; it has held true for developing the giant Tengiz field in Kazakstan and the building of an export pipeline to Novorossiisk; it has held true for the future of the Karachaganak gas condensate deposit in Kazakstan--probably the largest such deposit in the world; and it is holding true for Turkmen natural gas.

What the US Has At Stake

The present administration has been supportive of US companies looking to become involved in oil and gas exploration and development in the Caspian basin, in large part because government and corporate interests coincide. That involvement is based in part on one of the major planks of US energy policy: the development of oil production outside the United States but away from the Persian Gulf.

Implicit in this policy is the recognition that the US reliance on imported oil will continue to increase in the coming years, and that unexplored areas of the US currently unavailable for environmental reasons, will remain unavailable. Vulnerabilities that accompany a rising reliance on foreign oil can best be offset through diversity of supply.

At the same time, for Azerbaijan, Kazakstan and Turkmenistan oil-derived revenues will enable these countries to distance themselves, financially and politically, from Russia. That too is very much in US interests.

But there is a downside to all this as well.

- Can we be assured that the newly-found oil wealth will be spent wisely by Azerbaijan and its neighbors? Wlll we have another Norway or another Nigeria on our hands?

- US government interests and US corporate interests in the Caspian basin and in Central Asia may not always coincide. What then?

- The Cold War was distinguished by the role given to intelligence-gathering and analysis. Should economic intelligence-gathering and analysis be given a comparable position under today's changed circumstances?

Oil From Azerbaijan

An international oil consortium, led by British Petroleum and Amoco, is to undertake development of three oil fields in the Caspian Sea. The larger question has been: how to move the oil to market? Following prolonged negotiations and importantly, I believe, an intervention by President Clinton, a two-pipeline approach was accepted. Politics--not economics--drove that decision.

One pipeline--the northern route--would link Baku with the Black Sea port of Novorossiisk. Advantage could be taken of an existing pipeline, which could be readied for operation at a cost of about $50 million. Security of the northern route has to be questioned, however, because it passes through the heart of Chechnya.

A second pipeline--the western route--will link Baku with the Black Sea port of Supsa. Portions of an existing pipeline will be used, but renovation and new construction raise the cost of the western route to about $250 million. Some two years will be required to prepare this routing.

The western route is also faced with a security problem, in that it passes within a handful of kilometers of the disputed enclave Nagorno-Karabakh.

The first oil likely will not be produced by the consortium until the latter half of 1997. The "early" oil production schedule will last for about 7 to 8 years, during which time exploration and development will continue. Production in the second or later phase may reach a peak of around 700,000 b/d. That volume will require additional pipeline capacity, likely to be provided by construction of a pipeline from Baku through either Georgia or Armenia to the Turkish port of Ceyhan on the Mediterranean Sea.

What if Iran had been available as a transit country when the consortium was debating how to move its early oil to market? Would Iran have been a more feasible routing? Clearly, some members of the consortium thought so. Just as some members were opposed to spending $250 million on getting the western route ready for operation, when the northern route by itself would have sufficed, at a fraction of that cost.

However, Caspian oil moving through Iran and passing through the Persian Gulf cannot be considered any more secure than Persian Gulf oil.

In the end, the only really secure oil is the oil that the U.S. produces itself. If oil security is to be a priority goal of U.S. policies, then we should revisit our own remaining producing potential.

Kazakstan

The much-publicized giant Tengiz oil field lies within the Caspian Sea basin. Tengiz is of great promise. It is probably the largest oil discovery since North Sea oil came onto the scene. But the promise of Tengiz is constrained by its characteristics: the oil is deep-seated, under high presssures and temperatures, and the sulfur content of the associated natural gas is unusually high, between 20-25 percent. That level is life-threatening, if proper precautions are not taken.

For every barrel of oil produced at Tengiz, some 30 pounds of sulfur will be recovered. When Tengiz is producing at its projected peak of about 700,000 b/d, sulfur recovery will be on the order of 10,500 tons every day.

Means of moving Tengiz oil to markets outside the former Soviet Union are extremely limited. Tengiz oil has had access to just one pipeline of limited capacity which delivers the oil to a refining center in Russia, where it is swapped for comparable volumes which are then exported via the Russian pipeline network. Some limited volumes can be moved by rail and plans are in place for working out oil swaps with Iran. These swaps will involve just the Kazak equity oil from Tengiz.

Nonetheless, an opportunity on the scale of Tengiz comes along once in a lifetime. Chevron, which continued to pursued Tengiz through discouraging times, ultimately was successful, and the TengizChevroil joint venture was established in May 1992.

One month later, the Caspian Pipeline Consortium (CPC) was established to build a pipeline which would connect Tengiz and other oil fields in western Kazakstan to export terminals. The original routing subsequently was abandoned following the outbreak of fighting in Chechnya and replaced by a pipeline to be laid further to the north, linking Tengiz directly with the Black Sea port of Novorossiisk.

Chevron, in response to an invitation to join the CPC, laid out a number of conditions which would first have to be satisfied. In Chevron's judgment, however, the CPC did not meet any these principles. Absent a Chevron equity position in the CPC there could be no throughput agreement and, absent a throughput agreement, pipeline financing would be difficult if not impossible.

The original CPC has now been dissolved, new members have been added, including Mobil and Russia's LUKoil. Additionally, equity shares in the TengizChevroil joint venture are being re-arranged, and the prospects for this venture to move forward have improved considerably. A note of caution however: in the world of Caspian oil nothing can yet be declared as certain.

The Legal Card: Status of the Caspian Sea

On the very day that the "contract of the century" was signed between Azerbaijan and the western consortium, the Russian Foreign Ministry denounced the agreement as being illegal. The Foreign Ministry regards the Caspian Sea as a lake, not a sea, and that development of resources outside a 10-mile economic zone should be undertaken only with the approval of all five littoral states.

The Russian Ministry of Fuels and Energy, conversely, is very supportive of Russian oil company involvement in the Caspian Sea, in any and all of the national sectors. It appears that the way has been cleared for development of the Caspian to continue, and that a path has been opened for Russian participation in the other national sectors. Nonetheless, some kind of legal convention ultimately will have to be agreed on by all 5 littoral states.

Russia is supported in its position by Iran, while Azerbaijan and Kazakstan stand opposed. Turkmenistan has taken a middle position for the moment, although I would suggest that if and when oil is found offshore Turkmenistan, it would then be inclined to join with Azerbaijan and Kazakstan.

Summing Up

The world oil market has been relatively quiet since the 4-day Gulf War, which now seems a long time ago. But we need remind ourselves from time to time of the value of oil. We should remember that oil is high profile stuff. It fuels much more than automobiles and airplanes. It fuels military power, national treasuries and international politics.

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Because of this, it is no longer a commodity to be bought and sold within the confines of traditional supply and demand balances. Rather, it has been transferred into a determinant of well-being, of national security and international power for those who possess this vital resource, and the converse for those who do not.

There is good reason then, why Turkey, Iran, Georgia, Armenia and Russia are competing for the pipeline routes in question. It is not only the tariffs to be collected, although tariffs will be a lucrative source of hard currency. It is more than that. Pipelines routed through your territory become steel highways of influence, your influence, and points of leverage, your leverage.

In the past the Soviet Union and then Russia stayed away from the politics of oil. Oil and gas exports rarely were used in the support of the country's national interest. These exports were viewed as the best earners of hard currency the country had, and no more.

That approach is changing. Russia has become much more aware of the geopolitical role that energy can play. It intends to use its oil and gas strength as a means of supporting foreign policy aims. However, just how overt this new policy will be I cannot say at the moment. Crass grabs for power by Russia will not work in the current environment. Instead, Russia will use subtle political and economic leverage to the fullest extent in pursuit of its national interests. But then, that makes Russia no different from any other oil and gas exporting country.

Statement by Christopher H. Smith
Committee on International Relations
Hearing on the Caucasus
July 30, 1996

Mr. Chairman, I commend you for holding these hearings on an important region which continues to remain a hot spot and to engage the world's attention. Apart from -- or perhaps because of -- its oil-related strategic significance, the Caucasus includes some of the countries in the former Soviet Union which have been especially volatile since the late 1980s. Today we will hear from our expert witnesses about the current state of play and the prospects for long term stabilization.

In the late Soviet era, Nagorno-Karabakh was the first major ethnic-territorial conflict based on claims of self-determination. Though precise numbers of victims are difficult to establish, since 1988 an estimated 20,000 people have died and many more have been wounded. But the actual number of victims is much greater and includes many peoples other than Armenians and Azerbaijanis. The inability of the parties to the conflict and the international community to resolve the dispute has slowed the successful state-building of these newly independent countries, bolstered those forces which are actively working to subvert their sovereignty, and undermined the authority of international organizations, such as the OSCE and the UN, to address conflict in the post-Cold War world.

With a ceasefire in effect since May 1994, at least the bloodshed has stopped in Nagorno-Karabakh. Moreover, the leaders of the parties to the conflict seem sincere about ensuring that armed hostilities do not break out again. Nevertheless, it is discouraging that so little progress has been made in the OSCE negotiations, and that a genuine resolution seems far off. Nor is it excluded that fighting could erupt again, unless a solution is found.

In Abkhazia, while the specifics are different, of course, much the same obtains. There is no shooting today, but there are plenty of victims of past fighting. Georgia has been pressing Russia to expand the mandate of Russian peacekeepers to ensure the safe return of refugees to Abkhaz-controlled regions, but Moscow -- which professes to recognize the territorial integrity of Georgia and which has called for sanctions on Abkhazia -- has refused to do so.

These conflicts, individually or as representative of similar conflicts elsewhere, can be examined from many different perspectives. For example, participants can view them as attempts to right unjust decisions in the past, or as artificial disputes stoked by outsiders. Academics and political scientists might see them as the natural consequences of the Soviet political system's failure to mediate interests and to understand nationality issues, or as a specific leadership's inability to manage outbreaks of armed hostilities among its own citizens. More broadly, and more sobering, Nagorno-Karabakh and Abkhazia could be seen as omens of future conflicts in the post-Cold War world.

I prefer, however, to view these conflicts in terms of the human cost. Nagorno-Karabakh and Abkhazia have produced well over one million refugees, now living in extremely difficult conditions in Armenia, Azerbaijan and Georgia. It is in America's interest to do whatever we can to foster negotiated settlements of these disputes, and to help lay the groundwork for long-term stability. In the here and now, however, it is equally in our interest, and in accord with our traditions, to provide the maximum possible humanitarian assistance to the victims.

In that connection, I would like to restate a position I have taken in the past and will continue to uphold in the future: a refugee is a refugee is a refugee, without regard to nationality or religion. I was pleased to introduce the Humanitarian Aid Corridor Act in the House last year because it was unacceptable that U.S. humanitarian aid to Armenia should be blocked by Turkey. By the same token, I have supported allowing direct government to government assistance to Azerbaijan for humanitarian purposes. No cause or side gains by the current restrictions on direct government to government aid to refugees, but the refugees themselves suffer, which causes bitterness and brings into question Washington's ability to act as an honest broker in this complex, painful conflict.

I look forward to hearing our witnesses' perspectives on these and other matters, and once again, I commend the Chairman on holding these hearings.

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